

DEDICATED TO
THOSE WHOSE NAMES
I DARE NOT MENTION
AND TO MY ADOPTED
MOTHER

GERMANY

WORLD EMPIRE OR
WORLD REVOLUTION

By

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NOTE

The terms NATIONAL SOCIALISM, FASCISM, STATE SOCIALISM and STATE CAPITALISM are variously interpreted. A statement is therefore necessary concerning the use made of them in this book.

There is no difference between STATE CAPITALISM and STATE SOCIALISM. Both terms imply an economic dictatorship by the state. The question as to which class controls the state is a separate one. The term NATIONAL SOCIALISM implies also an economic dictatorship by the state. According to this the term would be identical with STATE SOCIALISM. But NATIONAL SOCIALISM is generally used—especially by the Nazis themselves—as applying to the present régime in Germany. This German NATIONAL SOCIALISM is identical with FASCISM, i.e. an authoritarian dictatorship of the state which has destroyed all democratic rights and liberties. This political dictatorship can exist without its having established an economic dictatorship where all economic activities are carried out according to a national plan. Such a system does not exist, either in Germany or in Italy, in spite of far reaching economic STATE INTERVENTIONISM, but the state is preparing such a State Socialism in case of war. We therefore employ the term NATIONAL SOCIALISM as having the same meaning as FASCISM.

German currency rates are a complicated matter. The purchasing power of one mark almost corresponds to the former rate of exchange: one mark=one shilling. Therefore the reader may equate purchasing power at the rate one German mark to one shilling.

ABBREVIATIONS

I.f.K.	Institut fuer Konjunkturforschung.
St.R.	Statistisches Reichsamt.
Mw.R.	“Militaerwissenschaftliche Rundschau”
Ra.B.	“Reichsarbeitsblatt”
S.P.D.	“Deutschland-Berichte” der Sozialdemokratischen Partei Deutschlands.
F.Z.	“Frankfurter Zeitung”.
L.F.	“German Labour Front”.
N.S.D.A.P.	National Socialist Party.
Vj.	Vierteljahreshefte.

PREFACE

IN THE SPRING OF 1932 I WENT TO THE U.S.S.R. AT THAT time the leaders of the Comintern had begun to realise that their policy was a failure. They felt that they had no real knowledge of the working-class in the capitalist world, nor of the reactions amongst the workers and lower middle classes to their experiences since the World War. They appreciated the necessity for a decisive change in the Comintern policy, but they did not know what that change should be. A committee was set up to inquire into the economic and political changes which had taken place in the German working-class since the war, and especially after the beginning of the world economic crisis. It was intended subsequently to extend the scope of the committee's inquiries to other countries.

I was invited to be a member of this committee. The other members were Smolianski (Western European Department of the Comintern), Bela Kun, and Kostaljan (one of the leaders of the Red Trade Union International, who was later to supersede Losovski). It was decided that I should return to Germany to organise the inquiry there and subsequently on my return to Moscow to make the final draft of the report in collaboration with the other members of the committee. It was intended both to issue a private report to the members of the Executive Committee of the C.I. and to publish a book.

Back in Germany I organised a far-reaching inquiry. I was able to enlist the assistance of many experienced trade-unionists, Communists, Social Democrats, economists, and sociologists. Thousands of questionnaires were sent out and returned to me. Before the investigation was completed, Hitler came to power. Nevertheless, I remained in Germany, and was able for some months to carry on the investigation. The results of this inquiry showed not

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only the bankruptcy of Social Democracy, but also the wrong policy of the Comintern, and the ignorance of the Russian Communist leaders concerning the real developments in Germany. Since I was unwilling to conceal or suppress the important conclusions drawn from the investigation, only a small part of the results of the research was published by the Comintern.

Later on, I spoke to one of the principal leaders of the German Communist Party (one of the founders of the Communist International); since he is still a member of the Party, his name cannot, for obvious reasons, be given. I knew that he was extremely dissatisfied with the Comintern's policy, and therefore urged him to let the working-class of the world know what he thought about the mistakes which had been made and which had proved to be so fatal to the German working-class. Such a statement, coming from an authoritative leader, would have assisted those workers who were struggling underground against Fascism to draw the lesson of the defeat of the German working-class, and to organise the fight against Fascism on new lines. His answer was as follows:

"I cannot do what you suggest on account of the existence of the Soviet Union. I do not want to set myself against the leaders of the Soviet Union. I know very well that we sacrificed the German movement to avoid a struggle with the Moscow leaders. It is possible that we shall sacrifice the movement in other countries for the same reason. In the end Fascism will be established over the whole capitalist world. Then there will be a final struggle between the Soviet Union and Fascism."

I consider such an attitude one of unjustifiable fatalism and irresponsibility to the world proletariat. It is typical of the party officials who long ago ceased to study real developments or to think independently. With them defeats and disappointments do not lead to the understanding which can make future victories possible, but to complete capitulation before the forces of reaction and counter-revolution.

This book embodies some of the results of the research undertaken for the Comintern, which its leaders in 1932-33

did not dare to publish. It also shows that the gloomy view, so widely held, that the forces of the working-class are extinguished, is not justified by the actual situation in Germany under the Fascist régime.

Since 1918 there has existed among the German working-class a feeling of solidarity with the Russian Revolution. The leaders of the Soviet Union were regarded by the vanguard of the German workers as the greatest revolutionary authorities. After their own frequent defeats—in 1919, 1920, 1921, 1923, 1932—they thought that Moscow would help them. In 1932 they realised the sectarian nature of the policy of the Communist International, which ruined their efforts to form a united front of the German workers against Fascism. The leaders in Moscow no longer understood the real situation in the capitalist world.

The furious attacks by the Fascist press on the Soviet Union had one result not intended by the Fascist rulers—those who were dissatisfied with the Fascist régime felt that there must be a fundamental difference between society in Soviet Russia and in the Fascist countries. At the same time Fascist rule created widespread scepticism towards the propagandist slogans and declarations of dictatorships, and of the representatives of states where any criticism of or opposition to the "Leader" is suppressed. When, in 1937, most of the Old Bolsheviks were shot or arrested, the majority of anti-Fascists in Germany were puzzled by the explanations offered by the Soviet Government, and asked: "How is it that, after twenty years of proletarian revolution and socialist reconstruction, Old Bolsheviks become traitors? Why is there, in Russia too, a state bureaucracy ruling in an 'authoritarian' way suppressing all criticism?"

We do not intend to compare the Soviet Union with Nazi Germany. In Russia there was a proletarian revolution against capitalism whilst in Germany the Fascist "revolution" was designed to prevent a proletarian revolution and the establishment of Communism. One can, however, find many similarities between countries where a huge bureaucratic state machine exists and the leaders have established an "authoritarian" rule.

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State socialism is the form socialism has taken in a country which developed its productive forces independently of and in antagonism to the rest of the world, concentrating especially on the war industries—iron and steel and armaments—and preparing for the complete militarisation of the country in the event of war. Only a part of the new productive forces in the Soviet Union could be used for raising the standard of life of the people. This development may have been exaggerated; the question cannot be dealt with in this book. The most striking feature of the society which has resulted is the rise of a gigantic state-owned industrial machine on the one hand and the existence of a large and powerful state bureaucracy on the other hand. The question arises whether and how such a bureaucracy can be shaken off.

This can happen only if a proletarian revolution in other countries, and particularly in industrially developed countries, makes possible socialist reconstruction on a world scale, without an armaments race, without militarism and the risk of war. Under National or State Socialism a state bureaucracy is unavoidable. Such a bureaucracy may try to prolong its existence and its tenure of power by opposing the proletarian revolution in other countries, but this policy could only be successful if social antagonisms and economic contradictions could be eliminated from the capitalist world, and cease to undermine the foundations of authoritarian Fascist rule. To what extent do these antagonisms and contradictions exist in Nazi Germany, and how do they affect the people living there?

The writer has not confined himself to an analysis of the position of the working class in Germany. An attempt has been made to describe the position of each different class under Fascism, to portray the working of the economic system established by the National Socialists, and to estimate the strength and weakness of Nazi militarism.

Before the war writers on the future of capitalism looked upon what was happening in the oldest capitalist country, Britain. To-day the trend of capitalist development can be seen most clearly in those industrialised countries which have neither colonial monopolies or large foreign invest-

ments; and where powerful internal monopolies form the basis for "national" finance capital.¹ An attempt has been made in this book to show the historical significance and social and political consequences of national, or internal, monopolies, which are quite other than those of colonial, or international, monopolies. This question, which is vital to an understanding of Fascism, is either ignored or neglected in other works on the subject.

A word must be said as to the difficulties of writing about Fascism. Some writers have gone carefully through the Nazi literature, have made trips to Germany, seen the new works instituted by the Nazi régime, spoken to friends and to strangers who have told them something about the feelings of the people. Then they write an "unbiased" book about Nazism. But it is extremely misleading to judge Fascism solely from its literature and from the experience of tourists. Foreign observers who have no intimate knowledge of Germany, who are not in close touch with the people living and working there, and are unable to give an adequate analysis of the social system, are easily irritated and misled. There are new names for old institutions. To describe what has been done under the new régime it is necessary to appreciate the contrast between the theory and practice of Fascism, and to know what might have been done under the old, and what is missing from the present. It is impossible for a foreigner visiting Germany to discover the real thoughts and feelings of the workers and peasants, who constitute the overwhelming majority of the population, unless he has known them for a long time and has won their complete confidence. The manner in which people express their thoughts and feelings is quite different in democratic and in authoritarian countries. It is true that the temper of the German people changes rapidly, from extreme fatalism and pessimism to the belief that "something must happen". The small shopkeeper or his wife, the peasant in the village, and the clerk in the office, discuss the price policy, the behaviour of a new "Leader", war

¹ Previous works by the author on this subject are: "*New Phenomena of the Decline of Capitalism*," Moscow, 1930; "*Die Machtstellung Der I.G. Farbenindustrie*," Berlin and Moscow, 1928.

and the danger of war, whenever they find it possible to do so. But they use a peculiar language to express their thoughts. The same word said in a different tone, or accompanied by a glance, completely changes its original sense, and this is a language which the casual foreigner cannot understand.

Nor would that understanding of the people, or the effects of the new government decrees, be enough to enable a judgment to be formed as to the final outcome of the Fascist régime. Fascist governments are addicted to the most extreme opportunism in regard to political decisions; nothing seems to be certain. Growing economic difficulties might drive them to risk a war, but it is also possible that the risk will be too great to run, and that the Nazi Government will retreat if threatened by a strong power. The final decision will depend to a great extent on the morale of the people, the great and unknown factor which cannot be gauged without a clear knowledge of the decisive social antagonisms within a society.

The war of 1914-18, and the Spanish War of 1936-37, taught the military strategists that a struggle between two well-equipped armies will develop into trench warfare and a war of exhaustion. This is a gloomy prospect for German militarism, since Germany is economically weaker than the other great powers. The German general staff, to meet this difficulty, is relying on the fullest use of the striking power and mobility of the modern war machine to reach a decision in the military conflict before the enemy has time to mobilise its reserves.

Napoleon's army was superior to all feudal armies because the mercenary troops of the feudal states could only move slowly, and their military strategy was consequently very unwieldy. But the French soldiers, "the sons of the revolution", were filled with a fighting spirit; they could be used for sudden attacks and surprise moves, because the commanders could rely on them, and the personal initiative of each soldier was much more highly developed than among the feudal troops. This factor was decisive. To-day, too, no army staff can successfully use aggressive and surprise tactics, and avoid trench warfare, unless it can

rely upon the enthusiasm and initiative of each individual soldier.

Lenin wrote as follows in 1919:—

“How can we explain the miracle that the Soviet power has managed to maintain itself for two years in a backward, impoverished and war-weary country, in spite of the obstinate struggle waged against it at first by German imperialism, which at that time was regarded as omnipotent, and then by the imperialism of the Entente. . . . Regarded from the standpoint of a simple calculation of forces, of a calculation of military strength, that is indeed a miracle, for the Entente was, and is immeasurably more powerful than we. . . . We have deprived the Entente of its soldiers. We replied to its immense military and technical superiority by depriving it of its superiority, thanks to the solidarity of the toilers against the imperialist governments.”¹

German generals who were leaders of the Reichswehr hoped that it would become the nucleus of a “People’s Army” which could count on the support of the masses and on the enthusiasm of the soldiers. They had learned a lesson from the experiences of the Red Army. But those who emphasized such ideas are now no longer the leaders of the German army. Is it an accident that the leaders of the Red Army, who prepared for a final struggle against the imperialist world, have also been removed or shot? The fundamental contrast between the aim of the former leaders of the Reichswehr, who wanted to restore the power of German Imperialism, and the former leaders of the Red Army, who prepared the fight against the capitalist world for the proletarian revolution, cannot be overlooked. But the similarity in their fate is striking. Both understood that the army in a “totalitarian” war has to rely on the support of the people and on the initiative and fighting spirit of the individual soldier, in order to avoid trench warfare, which would exhaust both sides. The German army leaders were inclined to under-estimate the social antagonisms which capitalist rule produces; consequently

¹ Lenin, *Selected Works*, Vol. VIII, pp. 51 and 54.

the dominant capitalist groups turned to Hitler. In the Soviet Union the former leaders of the Red Army, whose military strategy was based on the support of the workers and peasants, were not trusted by the "authoritarian" dictator who feels that he cannot always rely on the support of the workers.

A proletarian revolution revolutionises military strategy and tactics, because the soldiers of a revolutionary army, who know how to handle modern machines and arms, know at the same time what they are fighting and dying for. The bourgeois revolution brought with it new methods of warfare and escaped the deadlock of the military tactics and strategy of the unwieldy feudal armies. The proletarian revolution will have, and to some extent has already had, a similar influence upon the military tactics and strategy of to-day.

Can National Socialism create that fighting spirit and enthusiasm among the population which will make it possible to apply the strategy of quick moves and decisive battles? This is the most serious problem confronting German militarism. Authoritative representatives of the German army have written many articles and books about this all-important factor—the morale of the people—and have even discussed the fate of the entire régime in the event of a military defeat. In a new German Army Handbook, Ex-Major General Franke writes: "The spirit and discipline of a people's army are not forces which are created by military training. . . . The more an army is transformed from a body of mercenaries into a people's army, the more does the spirit of the people become the decisive factor. . . . Even the best arms are useless if nobody is willing and able to use them. . . . The surest means of testing the morale of a body of soldiers is their morale after a defeat."¹

The strategists of the German general staff are at present in a dilemma. They have become stronger by virtue of having created the biggest army in Western and Central Europe. But they are not strong enough to be able to

¹ *Handbook of Modern Military Science (Handbuch der Neuzeitlichen Wehrwissenschaften)*, Major-General D. H. Franke, 1936, p. 621.

return to the policy of German pre-war militarism. When the author of this book spoke to leaders of the Communist International in Moscow in 1932 about the future foreign policy of a Fascist Germany, he was told that a victory of Fascism in Germany would strengthen German militarism to such an extent that it would immediately revert to the imperialist pre-war policy, and would soon launch an attack against France and Poland. This prophecy was based on an under-estimation of the internal weakness of a Fascist system, and of the power of social antagonisms, while the strength of Fascist militarism was over-estimated.

It is bad policy from any point of view to exaggerate the strength of German militarism, and not to expose the facts. On the other hand, though the disappointments of the post-war years have taught us to avoid hasty optimism, there is sufficient evidence to show that Fascist militarism is undermined by the lack of enthusiasm on the part of the people, and by the existence of an opposition, although the latter is for the most part unorganised and without central leadership. Fascism is preparing for war, but in this very preparation lie the seeds of its own destruction.

Something should be said about *The Spirit and Structure of German Fascism* by the American Professor, Robert A. Brady, which appeared when this book was already in proof.

This book gives a careful account of the organisation and structure of Nazi Germany but the author lacks inside knowledge of life in Germany and has had no experience of the actual struggles of the people. This must preclude a correct estimate of the contrast between Fascist theory and practice. Moreover the account given of conditions before Hitler came to power is misleading. He writes as if 1926 to 1929 were a period of prosperity and "Gemuthlichkeit" for the German people. Yet this was in fact a period of rationalisation which worsened conditions in the factories and created a large amount of unemployment. Nor was the ensuing depression period marked by militant action by the trade unions as Dr Brady assumes. The trade unions avoided all conflicts because their leaders feared that any large-scale strike movement would quickly develop

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into a revolutionary struggle against the State. Nor should the sectarian trade union policy of the Communist Party in this period be concealed. The Red Trade Unions separated the Communist workers from the rest of the working class, which was already disappointed in its reformist leaders and looking for a way out.

Dr. Brady writes of the advent of the Fascist regime that: "Time was the essence of the story. . . . Everything was to be gained (by the anti-Fascists) by a play for time." He implies that if the Social Democratic Party had collaborated with the Communists in the Reichstag early in 1932 the Fascists would not have come to power. This is too simple a statement and does not tell the real story. Fascism would not have been avoided by a joint vote of the Left in the Reichstag, but only by a revolutionary struggle of the working class to overcome not only the Fascist danger but also the economic crisis.

Dr. Brady does, it is true, show at the end of his book that Socialism is the alternative to Fascism. Yet it is a fact that to-day the German Communist Party leaders in exile expelled from the Party, on instructions of the Communist International, all those who advocate the need for a Socialist revolution in Germany and who reject the "People's Front" policy which aims at the revival or preservation of bourgeois democracy.

That bourgeois democracy can never be revived in Germany is obvious from the economic position of Germany and the social effects of the history of the past two decades as set forth in this book.

GUNTHER REIMANN

14th Sept., 1937.

PART I
GERMAN MILITARY POWER

Chapter 1

HISTORICAL CONTRADICTIONS OF GERMAN MILITARISM

GERMAN DEMOCRACY WAS NOT A FAILURE BECAUSE IT WAS "weak" and because it did not defend itself against Fascism. This is only a half truth, since German democracy never really existed. The Weimar Republic had nothing in common with the democratic ideals of the Great French Revolution. Bourgeois democracy, in the sense in which it was understood at the time of the bourgeois revolutions, never existed in Germany. The destruction of the power of the feudal aristocracy, or of the absolute monarchy, and the establishment of some kind of democratic régime, were in the interest of the rising capitalist class. This class then consisted mainly of small manufacturers and the petty bourgeoisie. It wanted democracy because it wanted "freedom" for business and trade, it wanted to pay less taxes and to abolish the privileges of the old feudal, or semi-feudal, landowners, and war against the monopolies of the guilds of the absolute monarchy was waged in the name of the liberty and happiness of the whole of mankind.

The old feudal nobility lost power after the successful bourgeois revolutions in England and France. The absolute monarchy was destroyed. Nevertheless the political system which secured control of the state by the capitalist class did not correspond to the ideals of democracy as proclaimed in the "Rights of Man" at the time of the French Revolution.

"Men are born and continue free and equal in respect to their rights. The object of all political associations is the preservation of the natural rights of man, the right to liberty, property, security and resistance to oppression."

It is of the utmost significance, and of great importance in Prussia, that the first measures to destroy feudal privileges, and to open the way for capitalist development, were taken under the pressure of military necessity and at the behest of Prussian Generals. When Napoleon began his campaign against Prussia in 1806 it became clear that an army of mercenaries recruited in a feudal state had no chance against the armies of revolutionary France. Napoleon was a dictator, but he was the dictator of a bourgeois state, and his army could rely upon the goodwill and enthusiasm of a large part of the French population. He maintained the most important bourgeois reforms of the Revolution and helped to destroy feudal privileges in the countries he occupied. In Prussia those feudal landowners who stuck to their old privileges were absolutely hostile to the French Revolution and to its heir—Napoleon I. They soon realised, however, that their feudal army was quite incapable of fighting the army of a bourgeois state. For the French Revolution had led to a new kind of warfare.

“The military technical superiority of feudal armies was wiped out by the new manner of fighting developed by the French volunteers. Workers, peasants, handicraftsmen fighting for their own interests were not driven into the struggle by force like the mercenaries. It was not necessary to keep them in closed camps. They could advance quickly fighting in scattered groups over any area. . . . The chief failing of all mercenary armies—mass desertion—was absent amongst them.”¹

In Prussia most feudal landowners, with the Prussian king at their head, were prepared to sacrifice the independence of their country and submit to Napoleon. They realised that they dared not fight Napoleon unless they were prepared to carry through such reforms at home as would break the political power of the big landowners and give a decisive voice to the people. The patriotic officers of the old Prussian army, however, who had carefully studied the causes of their defeat at the hands of Napoleon, insisted on the reforms necessary to put an end to their military inferiority. They were supported by a section of the feudal landowners who were interested in

¹ Franz Mehring, *Zur Deutschen Geschichte*, 1931, p. 106.

capitalist agricultural production. The Junkers of East Prussia exported a great deal of corn to England, and suffered heavy losses from Napoleon's blockade of England. Von Clausewitz had exposed the weaknesses of the army of a feudal state, as contrasted with the strength of that of a bourgeois state. He had realised that a new era of warfare had begun—wars of the nation in arms. The old feudal state could not mobilise the whole nation since the majority of people were in a state of serfdom; the army had to be formed of mercenaries from all countries fighting only for money and without any nationalist sentiments or patriotism.

"The army of Frederick the Great consisted of recruited and conscripted soldiers, who, in spite of barbarous punishments, were so prone to desertion that at harvest time a double guard had to be posted at the city gates. The armies of the Wars of Liberation, on the other hand, consisted for the most part of volunteers. Henceforward, the nation as such formed the army. This is a notable difference; a new age. The World War was not fought by the army, but by the nation under arms.

The Prussian army, at the time of the Wars of Liberation, lived in the closest touch with the nation as a whole, and intellectually and politically its leaders were as advanced as the best men of their time. Men like Scharnhorst, Gneisenau and Clausewitz were in constant touch with all that was best in the intellectual and spiritual achievements of their time."¹

The most intelligent of the Prussian generals wanted Prussia to institute the reforms necessary to ensure the goodwill of the population and to mobilise the full strength of the nation. For this reason they supported the demands of the bourgeoisie for reforms and for the abolition of feudal privileges. Under pressure from the army the state proclaimed the end of the privileges of the guilds in the towns, leaving everyone free to follow any occupation and giving personal freedom and the right to private property to the peasants. But the feudal landowners succeeded in sabotaging these reforms. They were only partially applied and benefited only a minority of the population. Nevertheless, they made possible the recruitment of a large army of volunteers for the defence of the

¹ R. von Kuchlmann, *Thoughts on Germany*, 1932, p. 50 ff.

fatherland, and this had never happened before in the history of Prussia.

After the successful "War of Liberation" against Napoleon in 1813, there was an end to bourgeois reform measures, and even those which had already been introduced were to a large extent stultified. The feudal landlords had become big capitalist landowners expropriating many thousands of peasants. The king, who was himself one of the biggest landowners, did not want to strengthen the new bourgeois class and continued to recruit most officers of the army from the families of the landowning aristocracy. The army, which had sponsored bourgeois popular reforms in 1812-13, and which could rely on the patriotic enthusiasm of the people at that time, again introduced a most severe discipline and a system of punishments, although the soldiers were no longer mercenaries from foreign countries but conscripted "sons of the fatherland".

The way to capitalist development was accordingly opened in Germany by state reform from above, whilst in Western Germany the reforms were mostly carried out by a foreign conqueror—Napoleon and his Code Civil which he imposed by force. This facilitated the destruction of the feudal régime and the development of capitalist production but it did not clear the way for the development of a bourgeois class free from connection with the landowners and the bureaucracy.

Prussian absolutism relied upon a huge state bureaucracy recruited mostly from the upper middle classes and the lower nobility. The antagonism between the citizens of the towns and the feudal landowners enabled the monarchy to achieve a certain independence from both, after having crushed the independence of the towns as well as of the feudal landowners.

"The disunity of interests corresponded to the petty principalities and the free imperial cities. How could political concentration develop in a country which lacked all the economic requisites for it? The powerlessness of each individual sphere of life (one can talk neither of estates nor of classes, at the most of former estates and unborn classes) permitted no single one of them to win exclusive dominance. The natural result was that during the epoch of absolute monarchy, which appeared here

in its most crippled and semi-patriarchal form, the particular sphere which, by the division of labour, had control of the administration of public interests, attained abnormal independence, which was extended still further in the modern bureaucracy. Thus the state constituted itself into an apparently independent power, and this stage, which in other countries was merely transitional, has been retained in Germany until to-day. This explains both the frank bureaucratic self-importance which is to be observed nowhere else, and all the illusions current in Germany about the state, and the apparent independence of the theoreticians as against the bourgeois, the apparent contradiction between the form in which these theoreticians express the interests of the bourgeois, and these interests themselves."¹

The dominance of the state over the urban and rural the landlords strengthened the state bureaucracy and made it an instrument for the national unification of Germany. The unsuccessful bourgeois revolution of 1848 had as its aim the unification of Germany. In 1871, Germany was finally united under the leadership of the old Prussian state bureaucracy by Count von Bismarck, as a result of the successful war against France. The Prussian bureaucracy took the lead in the unification of a national state, Bismarck provided the necessary but not without the support of the bourgeoisie but wished to prevent the bourgeoisie from exercising political predominance. Bismarck to transform Germany was able to enter on a path of exploiting the bourgeoisie, although a successful bourgeois revolution had never occurred.

Bismarck, the victor of 1871, regarded such a bourgeois development, such as had occurred in England, as France, would weaken the state power and was opposed the bourgeoisie class. At the same time industrialism had as early as a national industrial system, and railways were especially under a state subsidy. Bismarck's famous "social laws" such as compulsory Health Insurance and Insurance against old-age in factories, were the decisive progress of practically the influence of the revolutionary bourgeoisie upon the state, thus weakening the bourgeois state power by not of preventing the industrial system and winning them of

¹ K. Marx and F. Engels, *The German Ideology*, 1845-46, p. 111.

them to his side.¹ It was impossible for Germany to become a strong military power and claim recognition as one of the "Great Powers" unless she had her own modern industries and banks. The existence of large deposits of iron ore and coal in Western and South-Eastern Germany assisted the development of a large iron and steel industry. A new process for the production of steel enabled German industrialists to compete successfully against British iron and steel.

When the bourgeois revolution was defeated in Germany in 1848, the development of capitalism in other countries had proceeded far enough to make the German feudal ruling class realise what modern industry meant to the military strength of a nation. Bismarck was not a reactionary who wanted to re-establish or consolidate feudalism; he went so far as to threaten his own class with the ghost of the bourgeois revolution, or even with proletarian revolution, when it hindered the carrying out of his policy. Bismarck's aim was the creation of a strong united Germany able, under the leadership of Prussia, to dominate Europe. He therefore prepared the way for a rapid development of the productive forces, and in particular encouraged the development of heavy industry for the supply of armaments and the construction of railways.

The defeat of the bourgeois revolution meant that the big estates were not broken up. The Junkers became capitalist proprietors instead of feudal landowners. It also meant that the development of large-scale industry was put in the hands of a small circle of wealthy men backed by the resources of the state. The majority of the population remained poor and without any chance to improve their status. Hence capital was from the very beginning far more concentrated than in those countries where industrial development had proceeded more slowly and more spontaneously. Large-scale production was developed from above, without any intermediate phase of small-scale enterprise and decentralisation. This is why Germany was

¹ Bismarck spoke as follows in the Reichstag on 26th November, 1884: "Even such moderate social progress as has been achieved up to now would not have been possible but for the existence of Social Democracy, which frightened many people."

so soon able to compete against British industry on the world market, and to become the world's foremost centre for the production of iron, steel, machinery and armaments. But although this meant that Germany became extremely strong from the military point of view, she had developed too late to participate in the imperialist division of Africa and Asia. She missed her chance of acquiring a colonial empire.

It is of interest to compare the modern development of Germany and Japan. In neither country was feudalism in decay able to resist the foreign invader and in both countries we witness the deliberate transformation of a feudal economy into a capitalist economy by the military aristocracy as the only way to save the country's independence. The samurai in 1868 realised that Japan would become a colony of the Western Powers unless powerful armament industries could be built up and the old decentralised feudal system abolished.¹ The result was a state in which economic and political power was held by a group of great family trusts and by the semi-feudal landowning class whose sons were the army officers. The analogy with the efforts of the Prussian military leaders to make their country sufficiently strong and united to resist Napoleon is obvious. But in Germany "bourgeois" reforms were carried somewhat further than in Japan where the peasant remained economically a serf paying half the produce of his farm as rent in kind to a landowner. Moreover German imperialism had the great advantage of having tackled the problem of becoming an industrial country fifty years earlier than Japan. Hence some industrial expansion was possible at a period when the great powers in a free-trade world still had a field for expansion in uncivilised or "backward" countries. Japan's great industrial expansion began during and after the war, when "free trade" was already dead.

Versailles deprived German imperialism of its colonial empire and its foreign investments, and to-day Germany is worse off than Japan with its considerable colonial possessions and its far freer field for expansion.

¹ For an excellent account of what happened in Japan at the Restoration, see Freda Utley, *Japan's Feet of Clay*, 1936.

The old-fashioned Prussian bureaucracy could only transform Germany into a military state if it could make her into an important industrial centre. If Germany had relied upon the slow emergence of a middle class accumulating capital and investing it in industries which were their own private property, she would not have been able to compete with Britain either industrially or in armaments.

The government, which was in the strong hands of a military-minded aristocratic clique, prevented the ruin of the old aristocracy through the breaking up of the estates of the Junkers. At the same time the state gave its protection to the new industrial enterprises which began to produce on a large scale those raw materials and manufactures which were of the greatest importance from the military point of view. Both the commercial and the taxation policy of the state were designed to assist those industries in which large scale enterprises were controlled by the big financial interests. The latter formed an aristocracy composed of the old agrarian nobility, the big industrialists and the bankers. Bismarck's policy was successful in so far as it prevented a revolution which would have destroyed both the power of the old semi-feudal landowning class and that of the state bureaucracy.¹

Nevertheless, he was betrayed by history. The bourgeois class did indeed adapt itself to the special conditions under which Germany could develop along capitalist lines. Up to 1848 most German manufacturers had been in favour of democracy and liberalism, but they had had no decisive influence and had been too weak to make a stand against the feudal forces and the state bureaucracy. At the same time, they were frightened of the working-class movement which had begun to pursue its own class interest almost from the beginning.

After 1870 the big industrialists and bankers, who were closely connected with the wealthiest of the large landowners, took the decisive and leading part within the

¹ "Bismarck had to make Nationalism Conservative instead of Liberal, militaristic instead of humanitarian, monarchical instead of democratic."

Bertrand Russell, *Freedom and Organisation*, 1814-1914, 1934, p. 431.

capitalist class. They had no need of democracy. Their interests were closely bound up with those of the militarists who desired to see Germany the strongest military and naval power with her own colonial empire¹. Bismarck failed to see the change which came over Germany. He died a lonely old man without political influence.

In spite of the predominance of a financial aristocracy closely connected with the most reactionary feudal elements and with the bureaucracy, Germany showed a marked tendency to develop into a country with a parliamentary system of government modelled on that of Great Britain. This tendency was cut short by the Great War which, by depriving Germany of her colonies and her international monopolies, destroyed the economic basis for the existence of a labour aristocracy and a large rentier class.

At the outset of the Great War the German general staff was convinced that it would be over in a couple of months. When this illusion was destroyed it became essential to establish state control over all classes of the community in order to get the utmost out of them for war purposes. German militarism was confronted by new problems. It was essential to ensure the goodwill of the peasants who had been betrayed by the King of Prussia after the War of Liberation. It was also necessary to secure the voluntary collaboration of the working-class, which had been suppressed before the war and refused political rights. It was, in a word, essential to enlist the support of the whole nation for the maintenance of the war machine. Most of the generals were personally connected with the landed aristocracy and the big industrialists, but there were many army officers who were purely professional soldiers, anxious to strengthen German militarism by every possible means.

In 1914 newspapers produced a kind of hysteria amongst the whole population. Every possible method was employed

¹ Among the generals and colonels of the Prussian Army there were:

14 per cent bourgeois elements in 1860,
39 per cent bourgeois elements in 1900,
48 per cent bourgeois elements in 1913,

among officers of lower rank, there were 75 per cent bourgeois elements in 1913. K. Demeter, *Das Deutsche Offizier-Korps und Seine Soziale Basis*, 1930.

to arouse enthusiasm for the war and the result was a kind of Nationalist delirium.

In this connection one can quote the order of the Stuttgart Chief of Police addressed to the policemen of that town during the days of mobilisation in 1914:

“Policemen! The citizens are going to go mad—Everyone sees a Russian or French spy in the person of his neighbour, and considers it his duty to knock him down and also the policeman protecting him.—Clouds are thought to be aeroplanes, stars airships, parts of bicycles bombs; it is rumoured that the telegraph and telephone wires in the centre of Stuttgart have been cut, that bridges have been blown up, and water supplies poisoned. Nothing of the sort has really occurred. We cannot imagine what will happen when times become more difficult. One already feels one is in a madhouse—Policemen, control your nerves. Behave like men, not like women. Do not sound the alarm. Keep your eyes open as is your duty.”

The Great War was utterly unlike former wars; it was a “totalitarian war”. The whole nation had to be mobilised; every industry, every worker, every peasant, even women, boys and girls. Whereas it is easy to give orders to soldiers who are accustomed to obey blindly any command given by an officer, it is far more difficult to ensure absolute obedience when dealing with an army composed of millions of peasants, workers, artisans, and business and professional men, who all have antagonistic or different interests. German militarism was unprepared for the change. It had to find new non-commissioned officers able to ensure obedience from the men in the new army to carry out the orders of the general staff. Most of the trade-union leaders offered their services to the “fatherland” in 1914. They handed over control of the trade-union machinery to the state. The generals were most willing to accept this assistance, since they had no other means of controlling and influencing the soldiers out of uniform, the workers in the factories and arsenals.

“It is not enough that we should thank the Social Democrats for having set aside their Party programme to march under the National flag. We must realise the great merit of the Social Democrats in considering the use made of their organisation.

Suppose these great working-class associations did not exist and that those who composed them were mere isolated individuals. In that case many of them would probably have remained unaffected by the movement and would have offered some active or passive resistance to conscription. In 1870 in many places men could only be mobilised by compulsion. Even in 1813 this was the case in some localities. This time nothing of the sort occurred. For to-day every German is organised and follows the lead of his organisation. It is only because of the collaboration of these social forces with the social organism that the immense forces which we have felt during this mobilisation could have been created.”¹

The old trade-union leaders, who became a part of the military machine at the beginning of the war, had lost most of their influence over the working-class by the end of the war. The army was still in existence, but the workers and soldiers had ceased to obey the orders of the officers they hated, or of the leaders whom they distrusted. The military machine broke down. The state bureaucracy was helpless when confronted by the workers in the army, who were ready to destroy the capitalist system.

When in November, 1918, the military machine ceased to function, and power in the state fell into the hands of a working-class out to destroy capitalism, and of a rebellious soldiery, a strange situation arose. All the reactionary forces, the big industrialists, and the bankers, the older regular officers and the Junkers, the former Conservatives and the Democrats who had always remained loyal to the Kaiser—all these diverse elements took their stand in favour of “democracy”, for the principles of the French Revolution, for the “Rights of Man”, for “Liberty” and “Freedom” as against the Spartacists or Communists who were fighting for a proletarian dictatorship. The capitalist and the reactionary forces stood together behind the Social Democratic leaders—who were for “democracy”, and assisted them so long as there was a danger of the latter being overthrown by the revolutionary workers. Such a situation had been foreseen by Engels. In a letter written to Bebel, the leader of German Social Democracy before the war, the following passage occurs:

¹ Prof. Delbrueck in the *Preussische Jahrbuecher*, November, 1914.

“As to pure democracy and its rôle in the future I do not share your opinion. Obviously it plays a far more subordinate part in Germany than in other countries with an older industrial development. But that does not prevent the possibility, when the moment of revolution comes, of its acquiring a temporary importance as the most radical *bourgeois* party and as the final sheet-anchor of the whole bourgeois and even feudal régime. At such a moment the whole reactionary mass falls in behind it and strengthens it, everything which used to be reactionary behaves as democratic. Thus between March and September, 1848, the whole feudal bureaucratic mass strengthened the Liberals in order to hold down the revolutionary masses, and, once this was accomplished, in order, naturally, to kick out the liberals as well. . . . This has happened in every revolution: the tamest party still remaining in any way capable of government comes to power with the others just because it is only in this party that the defeated see their last possibility of salvation. . . . At the moment of crisis the whole bourgeois class and the remnants of the feudal land-owning class, a large section of the petty bourgeoisie and also of the rural population, will then mass themselves around the most radical bourgeois party, which will then make the most extreme revolutionary gestures. . . .”¹

This quotation almost exactly describes the situation in Germany in November, 1918. The big industrial and financial interests feared expropriation and a socialist transformation of the country under a proletarian dictatorship.

“As early as October, 1918, the Ruhr industrialists realised that their only hope lay in collaboration with the working-class leaders who stood for capitalism and democracy. Dr. J. Reichert, managing director of the association of the heavy industrialists, said to them at a meeting held towards the end of 1918. ‘The situation was already clear in the early days of October. The principal question was: How to save industry? How can Socialism, which threatens all branches of industry, be avoided, how can Socialist measures and the revolution be avoided. Since the organised working-class alone retains its strong influence we came to the following conclusion:—

On account of the great insecurity of existence and the collapsing power of the state and of the government, the industrialists can find strong allies only amongst the working-class; our allies must be the trade unions. . . .”²

¹ K. Marx and F. Engels, *Correspondence*, 1846-1895, London, 1934, pp. 433-4.

² Quoted from R. Mueller, *Vom Kaiserreich Zur Republik*, I, 1924, p. 122.

The account given by Schacht, the economic dictator of the Third Reich, of his experience in November, 1918, shows how the representatives of banks and trusts can become "good democrats" over-night.

"I was for a democratic policy since early youth. . . . And I was a confirmed believer in the conception of individual capitalist economy. . . . I was convinced that action for the re-establishment of order was urgently necessary when I walked through the streets on the 9th November, 1918. Some persons sharing the same opinion met on the 10th November and we decided to found a Democratic Party on the same day. . . . The goal aimed at was first of all to replace the revolutionary régime by a power relying on a general election. . . . Therefore everything possible was done to prevent our slipping down into a purely socialist-bolshevist era by organising and strengthening all democratic elements. I had defined the most essential item in a proclamation of the Party leadership: restoration of law and order . . . a constitution for the Republic, maintenance of the principle of private property and of individual economy."¹

Many illusions are current concerning the nature of the revolution of November, 1918, and many false accounts have been given of what occurred. Some writers have described what happened as a simple breakdown of the old system of government, or as a bourgeois-democratic revolution of the French type. Such a description does not correspond to the facts. There were a great many people in 1918 and 1919 who merely wanted peace and democracy, but it was the Socialist workers who played the decisive rôle. They wanted to make an end of any system based on the principle of private property as expounded by the French Revolution, but most of them believed in the assurance of the Social Democratic leaders that Socialism could be achieved peacefully under a democratic form of government, and they were frightened by the warning that the establishment of a proletarian dictatorship would mean the continuation of the war. R. Mueller, the President of the Berlin Committee of Workers' and Soldiers' Councils, and a leader of the Berlin metal workers, wrote as follows in one of the most interesting books published on the subject of the origin of the German Republic:

¹ H. Schacht, *Die Stabilisierung der Mark*, 1927, p. 21.

“The proletariat believed that it had won political power through the collapse of the old régime and the setting up of a Socialist Government, and by the abolition of old parliaments and the election of Workers and Soldiers’ Councils; besides this many people believed that the economic power of the capitalist class had also been destroyed. Both these misconceptions were fatal. The first existed only in the imagination and the second had yet to be begun, and could only be completed by completing and securing the first. The People’s Commissars did not really want to undertake either the first or the second task.”¹

The working class was therefore split; one section believed in the possibility of establishing Socialism by democratic means, and another stood for revolutionary action and a proletarian dictatorship, in other words for a Soviet Germany. This latter section constituted only a minority of the working-class. Nevertheless, the majority who were for democracy were unwilling to fight their revolutionary comrades. Noske, the Social Democratic leader who became a sort of military dictator in the early days of the November Revolution, appealed to the reactionary officers of the old army, and to the students and bourgeois youth, to “defend democracy” against the revolutionary workers. It was significant that the National Assembly had to meet in Weimar, instead of in Berlin, because the Government were afraid of the revolutionary workers of the capital.

“The Government was willing to convoke the National Assembly in Berlin, but Noske insisted on Weimar because, as he declared, he would not have enough troops to protect the Assembly against the workers if it met in Berlin. Noske himself gave this order on the advice of his generals.”²

The Weimar Constitution, of course, contains many paragraphs concerning the rights and liberties of the people in the best sense, as understood by the leaders of the French Revolution. Democrats praised it as being far more democratic than the British parliamentary system.

It cannot be denied that under the Weimar Republic the German people enjoyed many rights and liberties of

¹ R. Mueller, *Vom Kaiserreich Zur Republik*, II, p. 101.

² *Ibid.*

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which they had hardly dreamed under the old monarchical régime. But these rights and liberties had not been won as the result of a successful democratic revolution. They were concessions made to the workers with the object of splitting the working-class, and so preventing them from seizing political power at a time when the capitalist state was very weak and the working-class very strong.

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Chapter 2

THE ARMY UNDER NATIONAL SOCIALISM

A. GERMAN WAR STRATEGY

THE MILITARY STRENGTH OF A NATION IN MODERN TIMES cannot be judged merely by its armaments and by the number of trained soldiers, it possesses, nor on the basis of its technical capacity alone. There is another factor which is of equal, if not of greater, importance: the morale of the people.

The last World War was decided not by victories in the field but by a shortage of raw materials and food in Germany, which led to increasing social antagonisms and finally to a complete breakdown of war morale amongst the whole people. This brought the military machine to a standstill; it broke down completely over-night.

Some writers insist that the advances made in the technique of war, in particular the use of bombing planes and poison gas, will in any future war cause the complete destruction of both belligerent countries within a few weeks. According to this theory prolonged wars are no longer possible. There is, of course, no doubt that the next war will be more terrible and far more destructive than any previous wars. Nevertheless most of the competent military experts are agreed that a war between two well-armed powers, or groups of powers, will not be decided by a few air attacks, but by armies of millions—by the “nation in arms”.

“No commander of an army can think that victory can be won merely by dropping bombs on the enemy population, however important that may appear to him. It is not yet certain whether, in view of improved defences and of atmospheric conditions, the aircraft will be able to reach their objective and drop their bombs. Warfare is reality, not theory. This

reality demands first of all the conquest of the enemy's army; only then will the victorious army through its air force be able to act in the enemy country and in the rear of the enemy army. Thus the military strength of a country, for the purposes of continental warfare, remains in the army."¹

The Nazi leaders assured the army generals that Fascism or National Socialism would create and sustain a better morale amongst the population than parliamentary democracy. Has German Fascism actually succeeded in creating the improved morale desired by the militarists? It is true that the military leaders are satisfied as to the amount being spent on rearmament, but the problem of morale in wartime is not to be solved by military appropriations.

The German state has organised a gigantic propaganda machine which makes use of all the achievements of modern science and of all the knowledge gained from the study of psychology. The German Secret State Police has tens of thousands of informers, gaolers, and "specialists" in the extraction of "confessions" from suspected persons. No one in Germany dares openly to deny that the nation is completely united and that the whole people is ready to fight for the Fatherland.

Nevertheless the Nazi leaders obviously have serious doubts about the strength of the country should war break out.

Many illusions which the middle classes once cherished concerning their salvation under Fascism have already faded. The reality is too glaringly obvious: a militarism better armed and equipped than in pre-war times, a gigantic state-machine employing more people and costing much more to maintain, with a party organisation which can allocate a few hundred thousand privileged positions of greater or less importance.

Before dealing in detail with this aspect of affairs it is necessary to deal with one more question.

There is a certain antagonism between the leaders of the Nazi Party and of the army. Those army leaders in particular like Schleicher, who wanted a "War of Liberation" backed by the entire population, were against

¹ Ludendorff, *Vom Totalen Krieg*, 1935, p. 64.

a Nazi "party dictatorship" because they feared the opposition of the workers whose support is needed for a totalitarian war. The victory of the Nazis reduced and partially extinguished the influence of those generals. The new Army Chief von Blomberg did not obtain his post as Supreme Commander on account of his abilities, but because of his close friendship with Hitler. The reason for this change in the army leadership was Hitler's desire to be assured that the army would not turn against him; he need no longer fear such a development. Militarisation under the Nazi régime is different from the militarisation which von Seeckt and Schleicher sought to achieve. Both of these generals wanted to create a "People's Army" relying on the voluntary support of the majority of the population, and not on mechanical discipline. This was impossible on account of the economic situation of German imperialism.

The revival of militarism and increased armaments constitute a threat to those countries which stand in the way of German imperialist expansion. The more powerful the German war machine becomes, the more will the German militarists be inclined to satisfy the need for expansion by war as an alternative to economic ruin in peace time. The army leaders make detailed calculations concerning the risks of another war and the chances of success. When rearmament was begun in open defiance of the Versailles Treaty the army was very uneasy because it knew that Germany was unprepared to resist any military action by France or Great Britain. This inclined them to pursue a cautious foreign policy which would not provoke the great powers too much. The Nazi Party leaders, however, refused to pay much attention to the warnings of the general staff. They risked the open breach of old treaties undeterred by the fear of counter-measures by France or Britain. The antagonism between the adventurous policy of the Fascist Party leaders and the more cautious policy favoured by the army is also to be observed in Italy.

In 1934 Roehm, the chief of the S.A., was preparing a coup d'état in Austria with the idea of establishing with his Brown Shirts a Nazi dictatorship in that country. If

this plan had materialised France could not have failed to intervene, and war against Germany would have been inevitable. The army leaders would have refused to enter on a war which Germany would have had no chance of winning. Hitler sacrificed Roehm and his associates. Nevertheless the Nazi leaders were compensated for this failure to carry out their plans by the open contravention of the Versailles Treaty, and by the gigantic rearmament programme which was undertaken together with the militarisation of the whole people. The army was at that time still afraid of French mobilisation and of military action to restrain Germany. It did not believe that French Imperialism would give up its hegemony of Central Europe without a fight. The Nazi leaders, on the other hand, had no such fears and insisted on open defiance of the "Versailles Diktat". They knew quite as well as the general staff that Germany was not yet ready for war. What, then, led them to believe that they would be able to traverse the "dangerous period" without any real opposition from France or Britain?

Many people outside Germany still think that the French and British army staffs missed their opportunity when they failed to stop German rearmament at the very outset. They could have stopped it quite easily without the risk of a world war since Fascist Germany was, at that time, without the means to offer any serious resistance. It was not stupidity or ignorance which made British and French statesmen adopt a passive attitude. It was rather the fear of what might be the alternative to a Fascist régime. For it was obvious that any successful military action taken against Germany would have led to the collapse of the Fascist régime. The likelihood of a speedy end to the Fascist dictatorship made them think twice before taking any military action against Germany.

The Nazi leaders were well aware of these doubts and fears abroad, and fully exploited them for their own ends. They took advantage of their very weakness to strengthen their position. They said in effect: "You may overthrow us, but the alternative to our rule will be worse for you—social revolution and the spread of Communist influence

in Europe. Therefore you will not dare to fight us unless we attack your key positions and decisive strongholds. This we shall not do, or rather this we shall not do yet."

Hitler put this threat into words at the First Assembly of the Nazi Reichstag when the world was waiting for him to define his foreign policy.

"The outcome of war would be greater insecurity, increased economic misery and yet more wars. To start such utterly senseless action would lead to the collapse of the present order of society. A Europe sinking into Communist chaos would produce a period of crisis the duration of which cannot be estimated. The three principles which are the mainspring of our revolution do not menace the interests of other nations at all. On the contrary they can prevent the threatening Communist upheaval and lead to the construction of a people's State based on the principle of private property as the basis of culture. The re-establishment of a stable and authoritative state leadership." (17th May, 1933.)

Hitler's representative, Rudolf Hess, spoke in the same vein:

"The consequence of any action taken to eliminate National Socialism from the political stage in Germany would be chaos in Europe. Bolshevik penetration of Germany would mean a further destruction of economic activity, in particular in the industrial States which are the most inclined to succumb to the plague of Marxist chaos. This fact should be borne in mind by every political leader who plays with the idea of overthrowing National Socialism in Germany. . . . Because of the Communist danger . . . one can only laugh at those who believe that National Socialism can be supplanted by a monarchy or by the control of reliable constructive forces."¹

The Fascist leaders emphasise that a return to a peaceful bourgeois democratic régime has been rendered impossible by their own actions and by circumstances the significance of which they only dimly understand. They have a better understanding of internal social antagonisms and the fear of Communism in the capitalist world than those army generals who dreamt of another "people's war of liberation" in the interests of German imperialism.

¹ Rudolf Hess in a broadcast speech, 25th June, 1936.

Japanese militarism also makes use of the threat of Bolshevism against the "have" imperialists. British investors are horrified at the prospect of a revolution in China and finally in the whole of Asia. The end of Japan's military power might mean revolution in Japan as well as in Continental Asia. Therefore British imperialists, hoping to preserve imperialist rule in Asia, want co-operation with Japanese militarism at almost any cost, although Japan's imperialist policy is as great a menace as Germany's to the vital interests of British imperialism.

B. THE POLITICAL RÔLE OF THE ARMY

Von Seeckt, Schleicher, and other post-war German militarists may have dreamt of a new German Nation-in-Arms with a firmer social basis than the old Imperial army. They never took the restrictions of the Versailles Treaty seriously, restrictions which only permitted the maintenance of an army large enough to suppress internal disorder at a time when the capitalist system was very unstable, but useless in a war against one of the great powers. The German generals never gave up the hope of organising a new German army stronger than any other in Europe and supported by the whole people. It is incorrect to assume that Von Seeckt was in favour of a small, professional, highly-trained army, and opposed on principle to conscription and an army of millions. He wanted both. What he clearly perceived was the grave danger of militarising the whole nation and leading huge armies into war unless Germany was economically and financially stronger, and unless the willing support of the mass of the people was assured. Accordingly, he organised the small army of the Reichswehr under the Weimar Republic in such a way that it could become the nucleus of the future "Nation-in-Arms".

"Every section of the army became the cell of a much greater formation in the future army of a Great Power."

A company corresponding to a future regiment.

A regiment corresponding to a future division.

A division corresponding to a future army corps, etc.¹

¹ B. Jacob, *Das Neue Reichsheer*, 1935.

At the same time he warned against going too far in the militarisation of the whole people and said that conscription should not be introduced too soon; for he was not sure whether the officers would be able to control the conscripts, and he was doubtful of the morale of the soldiers in a serious crisis.

The policy of Von Seeckt was an attempt to apply the lessons taught by that famous military strategist, Von Clausewitz. The first theoretician of "totalitarian war" had made a close study of military history and had come to the conclusion that the era of wars fought by small armies of mercenaries, quite cut off from the people and from ordinary life, belonged to the feudal period and had passed away for ever. The modern era, as he realised, is one of "absolute war"—"totalitarian war."

"One might perhaps have doubted whether there is any reality in our conception of the absolute character of war if we had not witnessed war in absolute completeness in our own day. After the short introduction made by the French Revolution, the reckless Napoleon quickly brought warfare to this stage."¹

Von Clausewitz was the greatest of German military strategists but those who followed his teaching never fully understood either his theory or his lessons. They knew well that Clausewitz had said that "war is nothing, but the continuation of diplomacy by other means", but they took this merely as a justification of militarism. Clausewitz had said that the objective of modern warfare must be the annihilation of the opposing army and the reduction of the enemy to such a condition that he should never again be able to prepare for a war of revenge. This argument, drawn from the belief in the trend towards "absolute war", was used by the Prussian militarists to justify increasing armaments and a larger army. The "annihilation" of the enemy was considered by the pre-war German general staff to be the most fundamental proposition in Clausewitz's writings.

"Apart from its high ethical and psychological content, the permanent value of Von Clausewitz's work lies in its emphasis on the idea of annihilation."²

¹ Von Clausewitz, *Vom Kriege*, p. 611.

² Von Schlieffen, in the Preface to the 1912 edition of Von Clausewitz's *Vom Kriege*, p. v.

Clausewitz himself, however, had fully realised that the new conception of the "nation-in-arms" could only be successfully put into practice if the war became "the business of the whole people".

Writing of warfare in the feudal era, Von Clausewitz said:—

"War had become more and more an affair in which only armies were engaged. . . . This was the situation at the time of the French Revolution. . . . Then it suddenly became the concern of the whole people."

And again:—

"This military power (Napoleon's), based upon the strength of the whole nation, marched across Europe and destroyed it with such assurance and confidence that there was never any doubt about the outcome when the old armies were sent against it. . . . Since Napoleon, war has assumed quite a different character, having become the business of the whole people; first on one side, and then also on the other side, it has begun to assume absolute completeness."¹

This was never properly understood by the Prussian militarists. The old type of pre-war general of the Imperial Army was confident that he could inculcate an excellent morale in the army by sufficient drill and a system of punishments. Von Clausewitz had insisted over and over again that morale is a decisive factor and one of the "unknown" factors in all future wars. These warnings were ignored by the pre-war militarists.

"The spirit and the general strength of the army, of the army leader . . . the feeling of the provinces where war is waged, the moral effect of a victory or of a defeat, are factors which may have a decisive influence."²

". . . This is part of the theory of warfare."

"The spiritual forces cannot be ignored in war. War activity is never directed against material things only, but also against the spiritual forces which animate the material things (*die Materie*), and it is impossible to separate one from the other."³

One might have thought it essential that democratic rights and liberties should be given to the people if they

¹ *Vom Kriege*, pp. 624 and 626.

² *Ibid.*, p. 136.

³ *Ibid.*, p. 79.

were to feel that the "defence of the fatherland" were really their concern. Yet Germany was ruled by an absolute monarchy, and a clique of Junkers, industrial magnates, and bankers decided all questions of State policy. The army was run on the principle that the soldier must obey without thinking. Yet according to Clausewitz the morale of the army and of the whole population becomes a more and more decisive factor the larger the army.

The German militarists concluded merely that there must be more and more mechanical drill and blind discipline to ensure morale. This view appeared to have some justification after the experience of the Prussian Wars of 1866 and 1870; but these were wars of short duration, which did not necessitate the mobilisation of the whole people and of all national resources. The Prussian generals thought of the coming war in terms of the war of 1870; they imagined that there would be a few decisive battles which would bring the war to a quick finish. They stuck to the strategy of the German pre-war Chief-of-Staff, Von Schlieffen, who had worked out a plan for the defeat of France within a few weeks. If the war were to end in an overwhelming victory within a few months, and were not to develop into an "absolute war", the militarist had no need to worry about the morale of the people.

In contradiction to the theories of Clausewitz, the pre-war militarist regarded the idea of "absolute war" as a figment of the imagination, which would never become a reality. The militarisation of the whole country and of the whole people was never seriously considered. But when the war actually came, urgent problems involving the whole question of public courage and steadfastness confronted the generals of the army.

"The mobility of the troops depends upon their training and organisation, on the possibility of keeping them supplied with ammunition and food, upon the technical means of rapid transport, upon the ability of the junior officers to carry out the commands of the Supreme Command. . . . The question of *war morale* and the warlike spirit of the troops is of the utmost importance, their capacity to hold out under the most trying, even under the most terrible conditions of existence which demand the sacrifice of one's own life for the sake of the whole; the army

must be profoundly convinced of the necessity of the war. From this arises the necessity to co-ordinate the aims of policy—the objectives of the war—with the profound convictions of the army, or, as regards the army of the people, with the beliefs of the great majority of the population”¹

The Reichswehr leaders of post-war Germany had learnt the lesson of the war that the morale of army and people is decisive. They had learnt the real truth of Clausewitz's saying that “we cannot regard the spiritual forces as being of minor importance because they have no concrete value. The question of morale may become of such vital importance that nothing else counts besides it”

Von Seeckt wrote

“It is most undesirable that the army be called in to maintain public order that is beyond the scope of its function which is external, and for this it urgently needs the people's trust and its prompt support which it risks losing if it is employed as a police force”²

The Reichswehr generals realised that they could never risk a war of revenge unless they could count upon the enthusiasm of the whole nation. This would be impossible if they came to power only after defeating the working class in a bloody civil war, and by the establishment of a military dictatorship detested by the majority of the population.

For this reason most Reichswehr leaders refused to support the attempts of some reactionary militarist groups to win power by an openly counter-revolutionary *putsch*. The new army had refused to fire upon the Kapp rebels in 1920, but it easily suppressed the Hitler *putsch* of 1923 because it wanted to prevent civil war on a large scale. The militarists wanted to see what the reaction of the people would be and drew their own conclusions from what happened. They did everything possible to strengthen the small professional army and to overcome the handicaps imposed by the Versailles Treaty. Under the leadership of Von Seeckt they built up an army of military experts and prepared for the day of the “nation under arms”. They collaborated with

¹ Colonel E. Fabisch, *Streitfragen des Welt Krieges, 1914-1918, 1924* p. 294

² Von Seeckt, *Die Zukunft des Deutschen Reiches, 1930*, p. 134

the popular parties, which in turn gave them all they wanted without interfering with them. And they waited for their hour to come.

The German generals were very much impressed by the achievements of the Red Army in Soviet Russia during the civil war. After more than three years of the Imperialist war, after a crushing defeat by the German army, workers and peasants who were exhausted and badly organised had managed to put formidable armies in the field which defeated the well equipped armies of the White generals and their foreign imperialist allies. Bad organisation and insufficient armaments were more than counter-balanced by enthusiasm and propaganda, which disarmed enemy forces before a fight was even started.

At the end of 1918, when Imperial Germany collapsed, the Entente Powers were afraid of a militarised German Socialist state which would have been in close alliance with the Soviet Union. There were some German officers who favoured such an alliance, among them Brockdorf-Rautzau, the first German Ambassador to the U.S.S.R. The Entente Powers made it one of the first conditions of the peace that State Socialism and state control of foreign trade should be abolished in Germany.

Most of the influential old army officers never liked the idea of an alliance with the Soviet Union. They were too closely connected with bourgeois society; their main interest during the revolutionary period, which followed the war, was the defeat of the proletarian revolution and the preservation of capitalism. It was significant as showing the rôle for which the army was destined that the first units formed after the collapse of the Imperial Army, the so-called *Freikorps* (Free Corps) were used to suppress and terrorise the German working-class.

The Reichswehr was not, however, the child of the *Freikorps*. It was built up independently, although there was a close connection between the two, and most members of the *Freikorps* later joined the "Black Reichswehr" as an unofficial section of the new German army.

The official Reichswehr tried as far as possible to keep aloof from unpopular political activity. It was only used

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for maintaining internal order, when a proletarian revolution threatened the capitalist system, as, for instance, in 1923 when Red governments were set up in Saxony and Thuringia.

The leaders of the Reichswehr—Von Seeckt, Schleicher, etc.—collaborated with the political parties which had influence amongst the people and were willing to leave the army independent as a sort of *imperium in imperio*.

The German Reichswehr officer was not to be compared with the pre-war militarist, a snob who considered all civilians as far beneath him. Men like Schleicher maintained friendly relations with leaders of the trade unions and strove to create the impression that they had nothing in common with the unpopular "reactionaries". Many trade-union leaders believed in the sincerity of these officers and in their sympathy for the working-class. Even Karl Radek, as representative of the Communist International in 1923, thought that many of the nationalist army officers would willingly collaborate with the workers against French Imperialism. This was at the time of the Ruhr occupation. Many generals favoured the idea of another "War of Liberation" in which the army would receive the enthusiastic support of the whole people, and in which peasants, workers, and intellectuals would fight side by side under the leadership of the general staff.

GERMAN MILITARY POWER

had been a progressive force in a decaying society. But in post-war Germany the army leaders knew how unpopular the capitalist system was. Nevertheless they had to try to win popular support for a new war whilst suppressing the forces opposed to the capitalist system. Schleicher, who was Chief of Staff of the Reichswehr before Hitler came to power, had as many illusions as the Social Democrat and trade union leaders concerning the possibility of reconciling the interests of the workers and the lower middle classes with those of the big capitalists. He imagined that the Reichswehr could not, and would not, allow a Nazi system to be established which would destroy the organisations of the working-class and give full power to the monopolists of industry and finance. He paid with his life for these illusions in June, 1934. Although German militarists are fond of philosophising about the theories of Clausewitz, they fail to understand that his revolutionary ideas on strategy were developed at a time when the leaders of the army were supporting a popular movement against a decaying social system. Although their reforms could not compensate for the absence of a successful bourgeois revolution, they had been abhorrent to all the reactionaries of the time. Some Reichswehr officers wanted to revive the tradition of that period, but the Reichswehr as a whole supported Hitler, and consequently Fascism came to power. In 1933 Hitler said: "We should not stand here to-day if the army had not been on our side during the days of revolution."

were not so acute as in the U.S.S.R. The German army (and also the Reichswehr) is preparing war against the world, but it also defends the capitalist system against the proletarian revolution.

Major H. Foertsch, the mouthpiece of the general staff, wrote as follows:

“Revolutions which are made by the army alone usually destroy the foundations of the army. They do not last long; the confidence of the people has always been a sounder basis for state leadership than guns and bayonets.”¹

During the early days of the Nazi régime, many people believed that the army would crush it and set up a military dictatorship which would in turn be supplanted by a new parliamentary democratic régime. The Social Democratic leaders, in particular Thomas Leipart, the national leader of the free trade-unions before Hitler destroyed them, clung to this illusion for a long time. An open struggle between the Reichswehr and the S.A. or S.S. was prophesied. After 30th June, 1934, and the purging of the S.A. many writers said that Hitler had become a puppet of the Reichswehr. They ceased to believe this when the Reichswehr took the oath of allegiance to Hitler personally. Hitler is now the Commander-in-Chief of the army. The Swastika emblem, the Hitler salute and even the racial laws of the Nazis have been introduced into the Reichswehr. Adolf Hitler has become the recognised ruler of the Third Reich. *He is now the Commander of the S.S., and of both the ordinary police and the secret police, as well as of the army and navy.* This marks the final triumph of the principle of the “Totalitarian State”. All state power has been centralised in Hitler’s hands. The German people have been put into uniform, militarised and drilled. The outpourings of Goebbels’ propagandist machine, or of the Propaganda Ministry, are printed in every newspaper and read all over Germany. The unification of the nation appears to have been accomplished. Nevertheless the German people is actually less united than it was in the days of the Weimar Republic, and the army leaders are fully aware of this fact.

¹ *Ibid.*, p. 21.

Before Fascism the army generals were "non-political". They did not wish the army to lose prestige through connection with any political party. Under the Nazi régime they had to abandon this attitude once Hitler himself became the supreme Commander. A superficial view might lead to the conclusion that Hitler, or the Nazi Party, has got control of the army, and that the army is a tool of the Nazi party. Hitler did not greatly increase his influence over the army by becoming its official head. Although he made his new laws along the lines of "totalitarianism", the army staff kept its independence of the leaders of the Nazi Party. Those generals who were closely connected with Nazi leaders did not acquire control of the new army; they were relegated to positions which allowed them comparatively little influence. It is true that Schleicher, Hitler's rival, has been murdered; that Schleicher's closest friend, Von Bredow, has shared his fate; that Blomberg, who had never been on good terms with Schleicher but who was friendly with Hitler, has succeeded the former as Minister of War. But all this does not mean that the army is a tool of Hitler or of the Nazi Party.

Blomberg was always a careerist. He was one of the first "reliable Republicans" after the war, and he was completely in the confidence of the democratic War Minister, Gessler. Yet he became Minister of War as the nominee of the National Socialist Party. He is not regarded in military circles as a man of outstanding ability.

B. Jacob, a well informed writer on the German army, has described Blomberg as follows:

"Blomberg, although certainly an able member of the general staff, has a weak character unbecoming an army commander. He is not a great Chief of Staff nor is there any question of his being an organiser of the calibre of Von Seeckt or even of Frötsch . . . yet he holds a position which Scharnhorst never dreamt of and which old Moltke even was never able to attain to. Whether he will be able to bear the burden of the task which has fallen to him, time alone will show. We believe that he has not the capacity required as a Commander-in-Chief in a 'total' war, such as Ludendorff was known to possess."¹

¹ *Das Neue Deutsche Volk und sein Führer*, 1936, p. 85.

This confirms what history always shows: The leaders of an army which has to defend an unpopular and reactionary state are unable to apply new revolutionary military tactics and must revert to the old system. We may refer to Clausewitz who wrote:

"Professional armies fighting against professional armies might fight without enthusiasm rather professional armies fighting against a "Nation in Arms." In such a case the fighting troops are more divided up and they have to fight almost independently."¹

Only leaders of armies defending a progressive social system and therefore able to rely upon the genuine support of the people are capable of applying new revolutionary ideas in warfare. They are succeeded by less capable military leaders who stick to the "experienced" methods of warfare between regular armies. Once the state leadership has to fear the hostility of the workers and peasants in arms, the generals who are able and willing to apply new revolutionary tactics must be supplanted by less capable ones.

Schleicher and other German officers were not revolutionary, but they felt that the Nazi system could not assure the genuine support of the whole people in case of war and they wanted to avoid the deadlock of military tactics and strategy during the last World War. But as they could not face the full implications of this view they found themselves isolated from both sides.

However, the Minister of War is not in complete control of the army. The Chief of Staff is Von Beck, and the chief of the army section is General Von Fr̄itsch. These latter most influential leaders of the new German army are pupils of Von Seeckt and admirers of the old imperial militarists, especially of Von Schlieffen, the best of the pre-war strategists.

Some generals were not afraid to show their sympathy with Schleicher. The renowned General von Mackensen defended the honour of the murdered general in open antagonism to Hitler. He made a speech at the meeting of Graf Schlieffen's Defence Association in 1935, which

¹ *Vom Kriege*, p. 142.

he had first submitted to the War Minister for approval, but had not shown to Hitler. On this occasion he said:

“Generals von Schleicher and Von Bredow are dead. It has been established in regard to the death of both these officers that their personal honour had not been tarnished in the purely political struggle for power which was proceeding.¹ They followed a line which was regarded by the Government as hostile to its policy and which therefore led to their tragic end. I cannot allow a discussion on this question because the Government has decreed that the death of those who fell on 30th June must be considered as a state necessity.” To this Mackensen added a personal statement, namely, that, “they (Schleicher and Von Bredow) had fallen on the field of honour according to the decree of fate.”

Hitler subsequently sent a statement to the members of the “Schlieffen Association” saying that the above declaration was of a “purely private nature”—yet it had in fact been made in full agreement with the Ministry of War.²

Hitler is the Supreme Leader of the Army which has sworn eternal allegiance to him. But Hitler himself had to promise that he and his party would let the army organise the German armed forces independent of any Party orders. The army stands “besides” and not “below” the Party.

Only one armed force exists in this state—the army, and only one party,—the National Socialist Party.

“I shall feel it always my supreme duty to safeguard the existence and the integrity of the army as well as the officers and soldiers who have bound themselves to the new state.”³

The dissatisfaction of many army officers with the Nazi régime is caused by the fear that it might not be able to secure the support of the people for a future war. These army officers recognise quite clearly that a parliamentary régime might be as capable, or even more capable than a “totalitarian dictatorship” of militarising the nation and stimu-

¹ Hitler had called them “traitors” and accused them of having collaborated with foreign powers against the “fatherland.”

² This incident and Mackensen’s speech are recounted in *Die Weltbühne*, 1935, p. 695.

³ Hitler’s a. speech on the 13th July, 1934.

lating the "ardent patriotism of the people". This was stated in the theoretical organ of the Ministry of War:

"The French parliamentary system proved to be a suitable basis for a collaboration of state and military leadership on account of the good-will and ardent patriotism of the people. The French system, theoretically inferior, was in practice more efficient than the better German system."¹

The greater the economic and material difficulties become in a future war, the more important will be the factor of morale. The tactics of permanent offensive, which is the central idea of German militarism, is only possible if the army can rely upon the initiative and the fighting spirit of each individual soldier. The leaders of the army are alarmed at the weaknesses of their military system since the increased size of the army and rearmaments have been accompanied by a decline in morale.

The dilemma of the army staff is that it cannot merely prepare for a war against a foreign enemy; it must also prepare for civil war. The army officers are now trained to deal with "panic-stricken" or rebellious masses as a special "science". Each army corps has a leading "army psychologist" who gives advice to the officers about the "psychology" of the people. Dr. Grunwaldt, the army psychologist of the Third Army Section put the following questions to a study circle composed of about seventy officers of the Deutsche Gesellschaft fuer Wehrpolitik: "What is panic? What can be done to avoid panic? How can the beginning of a panic be delayed? How can one give a lead to a panic-stricken crowd? How can one strengthen the nerve and fighting spirit of the people and win their confidence?"

The officers are all good militarists, but they are too intelligent not to perceive the spirit which prevails among the people and in the ranks of the army and the deficiencies of the Nazi system. They personally owe much to the Nazi system, but they are afraid of the dissatisfaction of the majority of the population and of the soldiers in case of war; they distrust the morale of a people which does not believe

¹ Col. (ret) Mueller-Loebuch, *Politik und Wehrmacht als Mittel der Kriegsführung*, Mw. R. No. 6, 1936, p. 722.

in the truth and sincerity of its leaders. These army officers formerly ridiculed the deficiencies of the parliamentary system. To-day they point out in historical studies how the parliamentary system has worked better and been more reliable in war than "authoritarian dictatorship".

General von Metzsch foresees a situation in which German militarism might have to risk another war without much chance of success, and therefore he insists on measures designed to prevent a complete annihilation after a military defeat:

"War is an instrument of politics. This instrument cannot any longer be applied without revolutionary incidents resulting. One cannot imagine a European war not blowing the Marxist sparks into blazing flames. . . . Shocking and demoralising impressions might produce the feeling of defeat. However, these feelings must strengthen the idea that we can only exist if we risk the last, the most extreme, the most heroic, even if . . . it seems that we no longer have a chance of success. . . . It depends, however, on us to meet defeat in such a way that it does not become final defeat."¹

Von Metzsch's book was published with the approval of the army staff. He thinks it most likely that "Marxist" rebellions will disturb the work of the militarists, not years after the outbreak of a future war—as in 1914-1918—but shortly after hostilities begin. The German militarists are not convinced that National Socialism has eradicated the "poison of Communism" from Germany. They are afraid there might be again a situation in which they will have to fight against the "Sphinx"—"the spirit of the people" ("Seelische Erschütterungen des Volkes").

A peculiar difference in the outlook and views of army leaders and the government exists in all countries with an "authoritarian" rule. In Japan, for example, the officer corps is mostly composed of the sons of small landowning families while the government is under the influence of powerful "family trusts"—the financial oligarchy. In Germany most officers of the army are sons of the urban middle classes with a considerable minority of officers of higher rank deriving from the old nobility (closely con-

¹ General von Metzsch, *Der Einzige Schutz Gegen die Niederlage*, 1937.

connected with the big agrarians). It would seem, therefore, that the political influence of the army must be quite different in the two countries. In Japan the army influenced by the desperate situation of the agrarians is for a more aggressive foreign policy than the Government. In Germany however, the officers stand for a more "moderate" policy than the Nazi ministers. This contrast is not as great as might at first sight appear. The Nazi propagandists have shouted loudly for war whenever they have been sure that the British or French Government would not take them seriously. The leaders of the Nazi Party are in reality horrified at the prospect of a working-class in arms, and would be willing to do almost anything to avoid a war against superior powers, even at the cost of the "national honour". The army leaders, however, only speak of war if they mean it. They know that they have to prepare for a "totalitarian war". Preparing it they are handicapped if the internal policy of the government antagonises a large part of the population essential for the militarisation of the country and renders them unwilling to "die for the fatherland." Therefore some army leaders in capitalist countries oppose a too severe oppression of the people—not out of love for the people, but in the interest of militarism. It is, however, a moot point which policy is more reactionary: A policy which means ruthless suppression and exploitation of the people, or a policy which aims to lessen the internal terror in order to spread more terror abroad. The differences in outlook of the army leaders and imperialist governments is, however, in abeyance so long as a vast rearmaments programme can be financed.

C. WHO WILL MAN THE GUNS?

The army of the Third Reich has received from the government all the arms and money that it demanded. Within less than three years the German army of 100,000 men has been transformed into the greatest army in Western and Central Europe. Its air fleet has become the strongest after that of Soviet Russia. The economic policy of the state is controlled by members of the general staff or their closest collaborators. The military restriction

of the Versailles Treaty have been smashed without interference from other powers. The first three years of the Fascist régime saw a period of hasty militarisation in an effort to create, without delay, an army which would prevent a new occupation of the Ruhr by the French army. This goal has been reached.

Col. Foertsch boasted in the autumn of 1936:

“A year ago the German army was militarily weak. . . . To-day Germany can be sure of her future.”¹

The representative of Adolf Hitler, Rudolf Hess, boasted proudly that the soldiers of the Third Reich were “penetrated by the National Socialist spirit” and absolutely reliable. This is only a propaganda slogan which might be believed by those who know nothing of the real spirit pervading the army. It will be shown later on that the German military experts themselves speak very critically concerning the spirit of the army under National Socialism.

The army authorities want to be able to mobilise the whole population overnight. In many districts German citizens have already received detailed instructions as to what they have to do on the day of mobilisation, to which troop they belong, what they have to take with them, etc. The owners of motor cars have been served with special instructions. In some districts (e.g. in Zwickau near the Czechoslovakian frontier) any proprietor of a motor car must register any change made in the machine and any change in his own address or that of his garage.

The introduction of the new war machines and weapons makes the army more dependent upon the working-class, especially the industrial workers, than formerly. An armoured car requires only two men to drive it, but forty-six men are needed behind the front in repair shops, for delivery of oil, etc., for each armoured car. For each aeroplane, sixty men are needed at the aerodromes, repair shops, etc.²

It is usual for a young worker to become an apprentice at fourteen or fifteen years of age. His apprenticeship

¹ *F.Z.*, 1st October, 1936.

² Oberstleutnant von Belli; “Das Volk in Waffen,” *Militärwissenschaftliche Rundschau*, H.L., 1936, p. 18.

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is completed at seventeen or eighteen. He is then mainly interested in earning a wage for the first time in his life, and in enjoying the relative freedom which a worker can gain under capitalism. The young German worker of eighteen, however, is obliged to give a year to the Labour Service, entailing hard work and much monotonous drill without pay, and under military discipline. Having completed his period of Labour Service, he has to serve a further two years in the army, receiving pay at the rate of 10 30 marks a month. "The introduction of two years' army

Various reports about army life are smuggled out of Germany. The following is a typical example:

“The soldiers of the motorised sections of the army are mostly skilled workers, many metal workers being among them. This is the case with the Fifth Armoured Car Regiment, stationed at Wuensdorf near Berlin. The service is extremely hard and physically exhausting. Many experiments are made at the expense of the soldiers, and numerous accidents occur. Discipline is maintained after the Prussian manner—punishments, abuses, petty drill and monotonous exercises ordered by the officers and sergeants. Soldiers drilling often say: ‘It is worse than in the old Prussian Army.’ There is no soldier who is not discontented; everybody hates the system of drill, mechanical discipline and petty punishments. The sergeants tried to break the solidarity of the men by suggesting that they should maltreat certain soldiers who were unable to do all the exercises or who did them badly, and who therefore ‘spoiled’ the ‘reputation’ of the company or who caused extra exercises for the whole company. In pre-war times such soldiers, often peasants, were beaten by the special guards at midnight, with the approval of the sergeant, ‘to improve discipline.’ The suggestion by sergeants that such methods should be re-introduced was received with indignation by the men, who refused unanimously to make use of the old Prussian methods.”

This is but one instance which reveals the spirit prevailing among the soldiers of the New Army. There are many other remarkable incidents. In 1936 a soldier, a former S.A. leader, came under the influence of his comrades. Once, when certain men were being maltreated by the sergeants, he shouted: “Is that the people’s community? It would be a good thing to take a hand-grenade and blow the whole system into the air.” He was brought before a military court, and only the influence of his father, who had an important job within the N.S.D.A.P., saved him from the severest punishment. Another soldier, also a former Nazi, said at the end of his military term: “The military authorities are making Communists of us, if we were not Communists before.”

Among the aeroplane pilots, who are picked men, the tone is also very bad. On the creation of the new air fleet, many young policemen joined it. They were promised the chance of rapid advancement; after two years’ service

they could become officers. These promises, which meant higher salaries, were never kept. Now they are told that they can only get the promised advancement after four years, not two. A Berlin section of the Air Troop was ordered in 1936 to participate in army manoeuvres at Mecklenburg. The men openly sabotaged and offered passive resistance.

What can the army leaders do against this spirit of dissatisfaction, discontent, and even hatred? They try to improve discipline by resorting to Prussian military methods, although they are in desperate need of skilled, intelligent workers, engineers, etc., who cannot be treated like illiterate peasants.

Such an army must find it exceedingly difficult to prepare for war against foreign powers, it is obliged to be watchful for any manifestation of internal revolt.

The totalitarian war, the application of modern war technique, makes necessary the conscription and training of large masses of industrial workers. It is essential, therefore, that these workers should be willing to support the war, and to develop individual initiative in dealing with technical difficulties, and in making the best use of the machines of war, transportation and production. The less the army is able to rely upon the goodwill of the workers, the more it will have to introduce methods of "strict discipline", of mechanical obedience, the old Prussian *Kadavergehorsam*. But these methods will be less effective than in former times, for they will not secure the efficient use of the modern instruments of war.

The military leaders are very much alive to the danger that in an emergency the "war morale" may collapse. Therefore the whole youth of the country is educated on military lines. The young boy or girl is taught to become a "hero", to fight for the fatherland, and to defend his or her "honour" by unquestioning devotion to the "Leader".

CHILDREN IN UNIFORM

Since December 1st, 1936, all "Aryan" boys and girls have to join the Hitler Youth, although the national "Leader of the German Youth", Baldur von Schirach,

announced that "the principle of voluntary membership will be applied as far as possible". This body is being transformed into a military training corps. Boys and even girls learn to handle guns, and to acquire military discipline.

The young men of sixteen and seventeen are compelled to join the labour camps, where they are trained ideologically and physically. The system does not allow anyone but the state to influence and educate the youth. Hitler boasted on 1st May, 1937, that the discontented adults do not matter, because the youth belong to National Socialism. In addressing the National Socialist youth on May Day, 1937, Hitler declared that "There are old 'blockheads' in Germany with whom we could do nothing. But they do not worry us. We are taking their children from them and are training them to become new Germans—men and women. When a child is ten years old it . . . is like other children. It is at this age that we are going to take them to form them into a community, until they are eighteen years old. Then they will go into the Party, the S.A., the S.S., and other organisations, or they will go at once to work and into the Labour Front, then for two years into the army. If that doesn't make a nation . . . nothing will."¹

The young men wear the Fascist uniform, but they have not been ideologically "unified". At the beginning of the régime there was a wave of enthusiasm among them, especially amongst those of the middle classes. Later they felt the antagonism between National Socialist ideals and real life. For a while the German youth, when at school, are imbued with National Socialism as a romantic idealism embracing "comradeship", racial and national "honour", devotion to the "Leader", etc. Practical experience, especially in the military organisations and the workshops, disillusion them at an early age. A leader of the Hitler Youth wrote about the spirit and ideas of his group:

"My 150 boys without exception do not know what National Socialism means. The boys are full of enthusiasm, but not for the idea of National Socialism, rather for sports, for technique,

¹ *The Times*, London, 3rd May, 1937.

for romantic marching through forests at night, etc. The young German boy of to-day does not want to become a locomotive or bus-driver, his aim is to become a pilot. The boys are extremely interested in the technique of arms and warfare and they love 'military games', although a minority always dislikes strict discipline. Only a few boys pretend to be devoted 'National Socialists'. They are of the careerist type."

There is an astonishing contrast between the official account of the enthusiastic spirit of the Hitler youth, which most foreign observers hear, and the real situation. The following report concerning the Hitler Youth in Saxony is typical. "Incurable antagonisms exist between membership and leadership inside the Hitler Youth Organisations. There is everywhere, from top to bottom, a fight among cliques. Many old members complain that the old fighting spirit no longer exists. The Nazi leaders have constantly to appeal to them to remain devoted to the state, although the state does not fulfil its promises towards the youth. Many members say that the leadership has become 'too old' and should be removed. Some who voiced their opinion have been sent to the concentration camps. All discussion evenings have been 'postponed', and attendance at official meetings is small."

A section of the middle class youth, anxious to escape from the desperate fate of their class, find it possible to start on a career in the army.¹ Without any traditions, they turn into "adventurers", a type which is in sympathy with the Fascist ideal, and from which the Fascist militia is recruiting its man-power.

In spite of general dissatisfaction with their treatment and strict discipline most soldiers will probably march to the battlefields of the next war in order to fight for the "fatherland", especially if by skilful propaganda they are led to believe that they are defending their homes against a foreign invader. In pre-war times the Prussian non-commissioned officer was intensely disliked by most soldiers:

¹ There are 250,000 professional soldiers and about 100,000 permanent jobs in the air force and at aerodromes, the Navy. On the average, each year, about 50,000 young men might be able to start a military career, but there are hundreds of thousands of young men of the age of eighteen to twenty-one years who are looking for a job.

in spite of this most soldiers fought with enthusiasm in the early stages of the war. Our argument is firstly, that to-day morale is much weaker than in pre-war times, and that it would therefore collapse much earlier than during the last world war. Secondly—and this point is of special importance—the army leaders cannot rely on the enthusiasm and the initiative of the soldiers, and this will have a decisive influence upon military strategy. The army staff must abstain from offensive moves if it cannot rely upon the fighting spirit of the individual soldier. Moreover, there are soldiers among the young workers in uniform who are hostile to the Nazi régime and who want the Nazi army to be defeated that they may utilise such a defeat for a struggle against the régime. The number of such soldiers may be small at the beginning of another war, but this type of soldier did not exist in pre-war times: he becomes extremely dangerous to the system if the war does not lead to an immediate decisive victory and if military setbacks disillusion the people and the soldiers.

Chapter 3

GERMAN SELF-SUFFICIENCY

OF ALL THE IMPERIALIST COUNTRIES RULED BY AN "authoritarian" dictatorship Germany is industrially the strongest. Germany's industrial machine is far superior to that of Japan or Italy or even to that of France or Great Britain. Germany is the largest producer of iron and steel after the U.S.A. and the U.S.S.R., and the largest manufacturer of explosives and armaments after the U.S.A. Germany is not nearly so badly off as Japan in respect to raw materials. But the strategic position of Germany is much worse than that of other imperialist countries, e.g. Japan. Japan is surrounded by militarily weak powers, and can defend herself against the big imperialist states merely by maintaining a powerful fleet. Italy was able to take Abyssinia without becoming involved in a war with another great power. German militarism, however, cannot risk an attack against its weakest neighbours without being involved in a war against the powers and a "totalitarian war". In such a case Germany would be cut off from foreign supplies, more completely even than in the last war.

In a future world war the need for raw materials will be much greater than during the last, but present German raw material resources are more meagre than in pre-war times. German military experts have tried to calculate Germany's economic needs in a war of two years duration, based upon the experiences of the Great War.¹ It is concluded that each million soldiers in a future war will consume monthly 300,000 tons of iron and steel, 4 million tons of coal, 200,000 tons of oil (compared with 100,000 tons during the last months of the Great War).²

¹ *Die Mineralischen Bodenschätze als Weltpolitischer und Militärischer Machtfaktor*, 1936, p. 180.

² H. Steinberger, *Der Treibstoffverbrauch im Kriege*, 1936.

GERMAN MILITARY POWER

Germany is in possession of the greatest iron and steel industry in Europe, with the exception of the Soviet Union. The monthly steel production in 1935 amounted to 1,342,000 tons, almost as much as the monthly average in the most prosperous post-war year, 1929. This quantity, however, would only be sufficient to supply munitions and equipment for an army of 4½ million soldiers, whereas 9-10 million soldiers were fighting in the German army in 1918.

The *Institut fuer Konjunkturforschung* has criticised these estimates as too low, and anticipates a much greater consumption of raw materials than these war economists have assumed.¹ It points out that the official war economists, Enkel and Friedensburg, place too much emphasis on peacetime conditions, when a part of the industrial machine always remains idle.² Hitler may boast at party meetings that Germany will become completely self-sufficient, the experts of the army do not take this boast seriously.

“Somebody might say to me: we lack cotton. In four years, my comrades, every factory will be running. We will be able to have our own German materials. Then somebody else might

¹ According to the I.F.K. German home production covers the following percentages of the essential raw materials and foodstuffs consumed:

Home production as percentage of home consumption.

		per cent
Copper	(1927)	11
Lead	(1935)	22
Zinc	(1928)	70
Tin	(1933)	—
Manganesec.	(1925-8)	—
Aluminium	{ „ }	1.48
Chrome	{ „ }	—
Wolfram	{ „ }	.85
Nickel	{ „ }	—
Oil	(1935)	12.1
Wool	(1929)	8.6
Cotton	(1929)	—
Hemp		14
Wood		76
Rubber		7
Hides and Skins		47
Meat and vegetables	(1935-6)	90-94
Eggs and fruit	{ „ }	80-89
Dairy products and poultry	{ „ }	75-80
Fish		70
Bacon, Lard		60-69
Fats		50-55
Cereals		20-29
Agricultural raw materials		43

² *Vierteljahreshefte* of the I.F.K., No. 3, A 1937, p. 334.

say: we cannot possibly buy enough rubber. Well, I warn you to be on the look-out. Factories will shoot out of the earth, and one day we will be able to ride along on our own German rubber. . . . We will fetch our petrol out of the earth. We will wring it from our coal."¹

The economic experts of the army staff leave no doubt that in the event of war Germany will be less self-sufficient than in 1914. The Chief of the Economic Staff of the German War Ministry, Col. Thomas, warned overzealous German militarists not to overestimate the economic strength of German militarism. Otherwise it might have fatal consequences.

"Instances show us the close relationship between military and economic war leadership. Men like Alexander the Great and Hannibal had to give way on account of economic facts in spite of their great strategic skill. . . . And whether we quote the instance of Frederic the Great's attempts to strengthen Prussia economically for war or the collapse of the world power of Napoleon on account of its inadequate economic foundation, we always find proof of the close dependence of economic and military leadership in history. In particular we see the consequences of a false calculation of the economic forces of one's own country or of the enemy's by the military leaders."²

According to the *Deutsche Bergwerkszeitung* the demand for ingot steel exceeded production in 1936-37 by 7 million tons, or over 36 per cent. The shortage of iron ore is still greater. The Hermann Goering Corporation for iron mining and smelting, formed in August, 1937, was a grotesque affair. A state decree enabled the Corporation to compel any company to join it. Some foreign newspapers reported this as if a definite step had been taken towards state control or socialisation. The formation of the new Corporation was represented as an attack on the power of the iron and steel magnates. Herr Pleiger, the Chairman of the Hermann Goering Corporation, is not an iron industrialist, but a Ruhr manufacturer. Another member of the board of directors is Herr Keppler, who was removed

¹ Hitler at the Congress of the Labour Front, Nuernberg, 12th September, 1936.

² Quotation from a lecture of Thomas on "Kriegsfuehrung und Wehrwirtschaft in der Geschichte," *Wirtschaft*, 3, 1937.

from his former office (economic adviser to Hitler) on account of his opposition to Schacht. A few days after the foundation of the Corporation the heavy industrialists announced that they did not wish to participate in the Corporation and that they themselves were already doing their best to increase iron and steel output. They suggested that the new Corporation might finance iron ore mining in Germany in the districts where it is not profitable, and this has in fact become the function of the new enterprise. Profitable mining, and iron and steel production, remains in the hands of the powerful iron trusts, just as before.

Most essential raw materials are not available in Germany in sufficient quantities and must be imported. It is absurd to believe that it is possible to make Germany industrially self-sufficient. The increase in the home production of oil does not yet satisfy the additional demand created by the increased number of automobiles, tanks, aeroplanes, and armoured cars. Imports of crude oil more than doubled between 1932 and 1936.

It cannot be denied that the scarcity of raw materials is inspiring engineers and scientists to invent or to improve new processes of production utilising substitute raw materials. It might in some cases be possible so to improve technique as to make the new products as cheap, or even cheaper, than foreign products. But such cases can only be exceptional. Large plants are erected in order to dispense with imports, but their products can never compete on the world market. This kind of industrial "expansion" reduces the productivity of labour.

The facts known about substitute raw materials are striking. According to German estimates, the cost of production of synthetic oil exceeds the cost of natural oil products by 100 per cent to 300 per cent. In 1936 the import duty on oil amounted to 350 per cent of the world market price.¹ Buna,² the rubber substitute for which the Government has made so much propaganda, is even less able to compete with foreign products. In Germany it costs 300 per cent more than rubber.

¹ *Lloyds Bank Monthly Review*, July, 1937, p. 371.

² Buna was sold on the world market in small quantities at 4s. a lb. compared with 9d. a lb. for natural rubber.—*Lloyds Bank Monthly Review* 1937, p. 372.

GERMAN SELF-SUFFICIENCY

The total production of Buna amounted to about 16,000 tons in 1937, in comparison with a consumption of 74,000 tons of imported rubber.

Attempts to produce German aluminium without imports of the raw material—bauxite—failed. Technically it is possible to produce aluminium from clay. This is available in large quantities in Germany, but plans for its exploitation are not realisable as they required large quantities of copper and other foreign materials which are also not available.¹

Hitler's boast that the Nazi state will make Germany independent of foreign raw materials is mere bluff. The execution of the rearmament programme was only possible through an increased importation of foreign raw materials. Schacht organised this through a rigorous reduction in the import of consumption goods and raw materials intended for the manufacture of such goods.²

If Germany does not import raw materials for the production of textiles, it seems that the German population will have to clothe itself in paper suits, as happened during the World War. Even the Nazi Government cannot overcome the difficulties of growing cotton in Germany, and as regards wool Germany could only become self-sufficient in this commodity if half the soil at present used for the production of corn were turned over to pasture.

Great efforts were made by the government to render Germany independent of foreign grain, meat and fats, so that the most essential foodstuffs may be available in

¹ *Ij*, I f K., No 3 A, 1937, p 33B.

² *Increase in raw material imports from 1932 to 1936.*

	per cent
Iron Ore	+ 66 1
Chrome Ore	+ 156 0
Copper	+ 3 0
Copper Ore	+ 107 4
Lead	+ 207 7
Bauxite	+ 300 1
Crude Oil	+ 106 5
Petrol	+ 28 4
Rubber	+ 24 1

Reduction in raw material imports during the same period.

	per cent
Wheat	- 83 7
Cotton	- 42 7

war time, when imports are not possible. Nazi statistics for domestic production and consumption of foodstuffs are especially unreliable. According to official statistical surveys, there was no scarcity of meats or fats, while people in Germany could not buy these essential foods except in small quantities and of poor quality. According to a statement by Goering, the German people consumed 25 per cent more fats in 1935-36 than in pre-war times. The simplest solution, therefore, was to return to the pre-war butter and fat consumption, and Germany would then be self-sufficient in fat production. This government estimate is as unreliable as the official announcement on the grain and bread situation. The Reich Minister for Foodstuffs, Darré, announced in 1936 that Germany had definitely become self-sufficient in grain, bread and flour, potatoes, sugar, and almost self-sufficient (90-94 per cent) in vegetables and meat.¹

The government announced several times that the people did not need to worry about the supply of bread and meat. There would always be enough bread, potatoes and fat. But in the autumn of 1937 the government could no longer conceal the fact that there was a deficiency of grain and meat, and that huge quantities of the former (about 400 to 500 million marks' worth) had to be imported, otherwise the people would not have enough flour and bread. Officially, bad crops were responsible for the shortage, and the government cannot be held responsible for bad weather. However, it would have been possible to import enough wheat if the import of raw materials for armaments had not been increased.

An extremely disturbing factor for Nazi Germany is its greater dependence upon wheat imports than the Weimar Republic. Much land has been taken from the farmers by the army, and is used for military purposes, or has been utilised for the production of commodities formerly imported. In 1937 the acreage under grain was 350,000 hectares, (5 per cent) less than in 1936, although the acreage had already fallen by 500,000 hectares between 1932 and 1936. There was a still greater decline in pasture lands: 35 per cent less in 1936 as compared with 1934.

¹ *Voelkischer Beobachter*, 29th September, 1936. c

In July, 1937, the Government published decrees reminiscent of those issued during the War. Rye bread must be mixed with potato flour and wheaten bread must be mixed with maize and rye. The grain producers are forbidden to use it for feeding cattle or poultry, and the total surplus (except grain for the producer's own consumption or seed) must be offered to the State Distributing Organisations. The scarcity of cheap foreign fodder compels many agricultural producers to use a great part of their crop as fodder for their cattle. In 1935-36 they used about 700,000 to 800,000 tons more grain than previously for this purpose¹. The total home crop of grain is to be used for the production of bread and other foods. This means that there must be a greater scarcity of cattle and meat, as the result of a deficiency of about 5 million tons of grain fodder. Home production of other kinds of fodder was increased by 250,000 tons, or 166 per cent, between 1932 and 1937, but imports were reduced by 1,000,000 tons—four times the increase in home production². In 1935-36 the Government announced that the scarcity of meat was merely a local affair, due to inefficient distribution. This argument, however, cannot be maintained. There is a shortage of fodder which must inevitably lead to a decrease in the number of cattle and pigs, and consequently to a scarcity of meat³.

Another handicap to German militarism is the scarcity of gold and foreign currency. Some Nazi leaders still show the same contempt for gold as did the original theoreticians of National Socialism. The German Ambassador in London, Herr von Ribbentrop, has stated that

“The German economy has proved that it is possible for a controlled economy to exist without gold”⁴

¹ FZ, 19th July, 1936

² According to official estimates about 4 million tons of wheat and 7 million tons of rye are needed for making bread. Normally 2 million tons of odd rye and 0.5 million tons of odd wheat are used as fodder. There would be a shortage of 2.8 per cent unless even odd wheat and rye, formerly only used to feed cattle, were used for flour and bread production.

³ Official estimates state that the 1936 rye crop amounted to 7 million tons, or about 20 per cent less than in 1933, the wheat crop to 4 million tons, or about 30 per cent less than in 1933. In July, 1937, the number of young sows was 33 per cent less than in July, 1936. A corresponding decline in pork will be inevitable in 1938.

⁴ In a speech on 1st March, 1937

The representatives of the army have other opinions concerning the value of gold and foreign currency. They have issued alarming warnings about the shortage of gold reserves which are absolutely necessary in wartime. The army leaders have no illusions about the necessity of importing huge quantities of raw materials for war needs. They regard gold as "the most important military raw material."¹

"One cannot expect in another war that neutral, or even friendly countries, will send supplies which . . . cannot be paid for in gold, foreign currency or essential goods. Therefore it may happen that gold will become the most important war material. From the point of view of war economy . . . a limitation of the measures of self-sufficiency might become necessary."¹

On account of Germany's economic weaknesses her military tactics must necessarily be extremely aggressive, but without reserves of raw materials and gold, the national economy is not prepared for a transformation from peacetime production to war production. This weak spot in German rearmament was stressed in an analysis made by *The Banker*.² "According to present German military theory," it said, "Germany can win a war only if that war is not protracted. For whatever efforts Germany makes to render herself self-sufficient a long war would produce such a serious shortage of essential raw materials and foodstuffs that the ultimate issue would never be in doubt. Strange as it may sound, the very intensity of German rearmament during the last few years has weakened her potential military strength in an important way. By spending every available pfennig and every scrap of material for the building up of her armed forces, Germany has, at the same time, deprived herself of all raw materials, stocks, gold and divisen reserves. First, economic conditions have been created which do not allow Germany to wage a war other than a short one; and, secondly, the armed forces have been built up in such a way that they can strike their full force immediately."

² February 1937, p. 135.

¹ *Der Deutsche Volkswirt*, 24, 1937.

Shortage of raw materials and gold and foreign currency will be more marked in Germany than in most other countries. The economic situation is compelling the German militarists to cling to the conception of ultra-aggressive warfare, which can win a rapid victory. This was Seeckt's main idea, and the leaders of the New Army are also preparing for such warfare. They calculate that they would have won the last war if they had made full use of the industrial machine and all the national forces during the first decisive months.¹

Rearmament by foreign powers with greater economic and financial resources than Germany has reduced the chances of a quick decisive German victory in another world war. The army leaders have therefore grown sceptical of the possibility of achieving military superiority even during the first phase of war.

Even the militarists discover that too much rearmament and too strenuous an attempt to attain self-sufficiency do not strengthen war economy.

"If indirect costs are more and more increased by economic preparation for war, and if war economy is carried on in peace time, home investments will depreciate, and the nation will not succeed finally in its national defence plans. The efforts and difficulties of war will be better endured by the people if they are well fed and dressed and trained, if the reserves are great and industry well equipped."²

¹ *Volk und Wehrkraft. Jahrbuch d. Deutschen Ges. f. Wehrpolitik u. Wehrwissenschaft. Oberstlt. d. Generalstabes Warlimont ueber Volk und Wehruirtschaft* S. 37-38

² *Frankfurter Zeitung* 11th January, 1937

PART II
NATIONAL SOCIALISM IN THEORY AND
PRACTICE

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Chapter 4

CORPORATIONS IN THEORY AND PRACTICE

IT IS A MATTER OF VITAL IMPORTANCE TO THE FASCIST State that the citizens should really believe in the "common welfare" and carry out the orders of the government in the conviction that it is to their interest to obey. The absence of this conviction is not an immediate danger so long as the state machine continues to function; but once the real militarisation of the whole people becomes necessary, during a critical economic situation or on the outbreak of war, a system which has failed to gain the moral support of a large proportion of the people would fall to pieces.

It may be easy for those living outside a Fascist country to form an opinion on Fascism. It is difficult, if not impossible, for anyone living in a Fascist country to analyse and criticise the state system under which he lives. The only books and newspapers he is allowed to read are those carefully selected for him by the Ministry of Propaganda. It is for this reason that the triumph of Fascism has given rise to a kind of fatalism among anti-Fascists, who fear that the people living in the Fascist states must be more and more influenced by Fascist ideas, so that ultimately the Fascist state will be able to do with them what it will. There is a certain amount of truth in this conception; the effect of Fascist propaganda is to make it exceedingly difficult for anyone living under the dictatorship to know what is happening. But this does not mean that he believes everything he is told. On the contrary, the experiences of his daily life teach him that there is a great difference between the professions of the government and its actions; between the "interests of the community" in theory and practice. How far has this disillusionment affected people's

beliefs and thoughts? This is a question of supreme importance. In time of war it is imperative that the people should willingly obey the military command; if they fail to do so the war machine cannot work efficiently. If in peace-time the people perceive the contradiction between the theory and practice of National Socialism, and have not got implicit confidence in the "authoritative leaders", what will happen in time of war, when the army must rely on the good will and enthusiastic support of the people?

It is a fact that the process of disillusionment has gone further among those who have experienced what Fascism means than among those who merely discuss it theoretically. This is the inevitable result of the contradiction between the theory and practice of "National Socialism". When Fascism first came to power in Germany there were a great many illusions concerning it; the middle-classes wanted a "strong state" which would destroy the economic power of the large capitalist enterprises—the trusts, banks, and cartels. The state, they hoped, would free the citizen from "ruinous capitalist competition", by organising "corporations" and expropriating the banks and monopoly industrial concerns. They wished to see the latter converted into state enterprises and managed in the interests of the "community" instead of in that of private individuals. The programme and slogans of the Nazis, before they came to power, fostered these ideas. According to the National Socialist programme the leader, Adolf Hitler, was to become the dictator for the middle-classes, using the state power to control and tame the monopolists and to rescue the middle-classes from the extinction threatening them as the result of "ruinous competition". Many writers have already shown the falseness of the conception that Fascism, or National Socialism, is a kind of dictatorship of the middle-classes. Nevertheless one should not ignore the fact that there might have been some such transformation of the social system which would have caused the old social antagonisms to disappear. The "corporate organisations" might have become the basis of a new social order in which the state and its "leaders" would have organised a new social and economic system.

Some explanation must be given for the existence of the great organisations which the Fascist state has built up and on which such huge amounts of money are spent. Under Fascism every artisan, as well as every worker and industrialist, farmer, and peasant, has to be organised; each is a member of the "Labour Front" and of a professional organisation—the corporations, which are state controlled. The leaders of the corporations have many authoritarian rights over the individual member. They are not elected by the members but are appointed from above and must be "reliable" men in the eyes of the Fascist party leaders. There was an idea that the corporations would control the economic activity of all their members, that they would organise and direct every branch of production and distribution. Many Fascist representatives of the middle-classes—the left wing of the Nazi Party—hoped that the Fascist state would secure the livelihood of the citizens or "Volksgenossen" and save the ruined middle-classes from the desperate struggle for existence under capitalism. Many anti-Fascist writers took these hopes seriously, and imagined that Fascism would transform capitalism into some kind of medieval "neo-feudalism" or "organised capitalism". If this had happened and the middle-classes had won economic security, they would have become ardent and loyal supporters of the Fascist régime.

The American writer, Dr. F. Z. Schuman, for instance, wrote as follows:—

"Should this come to pass, life in the Third Reich as in other Fascist states will doubtless become something quite different from anything known in the western world for several centuries. The nation will become economically self-contained, provincial but secure, like a new medieval manor on a larger scale. . . . Economic freedom and mobility will disappear completely, giving way to medieval patterns of hereditary professions and guilds. The monopolies economically will be 'frozen' . . . The very 'idea' of progress is already dying in the western world. It is being replaced by the values of security and immobility in an economy which will be static and unadventurous."¹

Yet in actual fact the German middle-classes were never as powerless as they are to-day under the National

Socialist régime. The most influential persons in the Third Reich are closely connected with the big trusts and monopolies, which take their toll from the middle-classes as well as from the workers.

The destiny of Germany to-day lies in the hands of a few "leaders". They are uncontrolled by either a parliament or corporations. Deriving their authority from the supreme leader, Adolf Hitler, they act according to the "principles of leadership". Yet in practice Hitler cannot do as he pleases. He is the chief of a gigantic machine which has its own momentum and which he cannot control like a superman.

The leaders of the corporations no longer represent the members, whether the latter are workers, individual small capitalists, or artisans. The leaders are appointed by the government and have full power, according to the law, to control the actions of the individual members. The decisions of the government have to be obeyed and the interests of the "community", i.e. of the state, must not be harmed.

There are many misconceptions as to the real nature of state control under Fascism, and in general with regard to Fascist society. For instance Ernst Henri, in his book *Hitler over Europe*, brought forward evidence to show that the middle-classes have no influence at all, and that the heads of the big trusts have become more powerful than they ever were before. This is correct, but where Henri fails in his analysis of the system is in assuming that the Fascist state is the instrument of one man—Thyssen—and of one trust—the Steel Trust (Vereinigte Stahlwerke). He writes as if this one man and this one trust ruled over Germany like a medieval prince over his estates.

" . . . Stinnes, the man who once proposed quite openly to Germany that she should become his, Stinnes', private property, a territory under his administration, and thus rescue herself from threatening State bankruptcy. Stinnes died nine years before Hitler and the Brownshirts. But the system that his pupil and heir has set up is the same capitalist *neo-feudalism*, the same type of a private capitalist dukedom, placed in the stead of the old 'liberal' democracy. Such a dukedom is to-day

the Ruhr, the economic centre of Germany, and Thyssen is the new feudal lord. From here he governs the rest of the country, economically and politically.'¹

The triumph of German Fascism has produced a fatalistic attitude—the belief that National Socialism is successfully transforming the old capitalist system into a “neo-feudal” system and organising social and economic life on a medieval feudal pattern. If this were true the old social antagonisms of capitalist society would disappear. In capitalist society the majority of people can never attain to economic security, they have to struggle for existence whether as workers selling their labour power, or as individual producers (artisans and peasants) selling the product of their labour, or as industrialists, merchants and shopkeepers, by competing on the market. The capitalist may lose his capital and become as poor as the worker. This continual struggle for existence ends in disappointment for most people and convinces them that the economic system gives them no real chance to exist as human beings. Those few who have attained to economic security are naturally no longer interested in revolutionary change and will never be ready to struggle for a better social system.

The prospect of Fascist “neo-feudalism” has aroused widespread disillusionment concerning the future of any proletarian class struggle or the possibility of a socialist society. Yet the actual course of capitalist development under Fascism does not warrant such a pessimistic view. It is true that a few magnates have become wealthier and more powerful under Fascism. A man like Thyssen is an outstanding figure in the Third Reich. But it is a false simplification of the facts to assume that all the men who rule Germany are mere puppets of Thyssen’s Steel Trust and that some kind of “organised capitalism” or “neo-feudalism” exists in Germany to-day.

Theoretically it is possible that the corporate organisations will become the basis of a new society, even though the middle classes have been rendered powerless. The corporations might become the instrument of a few magnates, or even of a single one, controlling the whole population.

¹ E. Heits, *Hitler Over Europe*, p. 18

and ruling the country. In that case competition would cease. The one gigantic State Trust would organise production and consumption according to the will of a few magnates.

In the early days of the National Socialist régime many small manufacturers imagined that they would now be able to resist the pressure of the trusts and cartels and large-scale enterprises. Many new cartels of manufacturers were founded or reorganised during those days as the expression of the "spirit of National Socialism."

Outsiders were frequently forced to join the cartel or other monopoly organisations in their industry. If they refused they were accused of acting against the "interests of the community", and the state took action against them. The independent manufacturers and artisans tried hard to evade the dictatorship of the monopolists who controlled the supplies of imported raw materials. Accordingly they wanted the state to encourage the formation of new cartels, syndicates or corporations among the weak enterprises, so that their prices and production might be controlled. They hoped to see an end put to free competition. But the big trusts opposed the spread of cartels and syndicates and wanted free competition to continue in those spheres of production in which they had no capital invested and no control of the market.

There was a good deal of discussion among the Fascist industrialists as to whether the corporate organisations should control prices and production and so eliminate free competition altogether. Ernst Henri¹ and other writers believed that such a fundamental change would be made in the German capitalist system. There were tendencies apparent in the early days of the Nazi régime to warrant this assumption, but in the final outcome they were not decisive.

The attempt to convert the professional corporations into price-controlling cartels and syndicates failed. If it had succeeded the entire national economy of Germany would have been substantially altered. The dictatorship of the big monopolies which control the supply of almost

¹ *Op. cit.*, p. 24.

all industrial raw materials might have been effectively challenged by counter-monopolies of manufacturers and artisans. But it was in vain that the small and medium industrialists demanded that the State should empower the leaders of the industrial associations to control prices and production and abolish the competition which was felt to be the hateful feature of capitalism. Schacht compelled the Government to dash their hopes of economic security by stopping the formation of new cartels and syndicates, and in general by preventing the exercise of the state's power in the interests of the small industrialists. The "Cartel Law" of July 15th, 1933, had given full powers to the Minister of Economics to establish cartels and syndicates or to dissolve them, to permit the existence of outsiders or to suppress them. This law increased the powers of the government without indicating what line state policy would take with regard to cartels. On May 16th, 1934, a new decree prohibited the formation of new cartels and syndicates without special permission from the government, and made it illegal to raise the prices fixed by the existing cartels and syndicates except by special permission of the Minister of Economics. This decree was directed against those manufacturers who wished to use their new associations for the purpose of controlling the market and raising prices. At the same time an open conflict broke out between Kessler, the Leader of the Estate of Industry and Trade, and representatives of the electro-technical industry on the one hand, and Schacht on the other. Kessler wanted to combine the corporations and the cartels and to set up state cartels and syndicates. He worked out a complete scheme for the formation of export associations of manufacturers and for the state distribution of raw materials. Schacht and the heavy industrialists had no liking for this scheme; Kessler was forced to resign and one of Schacht's nominees took his place.

There was no longer any uncertainty as to state policy in regard to the cartels and corporate organisations. The new policy was clearly directed against any real control of the market by the corporate organisations. It is the right, and even the duty, of the latter to obtain full information

concerning the productive capacity and actual production of their branch of industry, but they are not allowed to exert any influence on prices and production.

All those economic "leaders" who did not wholeheartedly support the principle of free competition for the small and medium producers, and who wanted to minimise the risk to capital by state control and protection, had to resign. Even state control of the banks was not going to be tolerated.

All this does not mean that there have been no important economic changes under Fascism or that the corporate organisations exist only on paper. The point which must be emphasised is that the function of these organisations has nothing in common with that of the corporations of the Fascist programme or with those of medieval guilds. Nor do they enable their members to struggle for their group interests as their associations were able to do under the democratic system. In short, the German manufacturers have lost the right to organise in cartels and syndicates representing their special interests and able to eliminate or reduce competition. They can no longer form a united front against other capitalist groups.

The small capitalist is less influential than before, but he is compelled to support the government, and his activities as a capitalist are now far more narrowly circumscribed in the interests of the state than in the past. His old organisations are now controlled by the government and he is forced to be a member of one of the following central state organisations:

The Agricultural Estate,
The Estate of Industry and Trade,
The Artisans Estate,

Every industrialist, banker, farmer, merchant or small trader is subject to the discipline of the group leaders of his professional organisations, and must send in full particulars of his economic activities: production, productive capacity, consumption of raw materials, the number of workers employed, new investments and so on. The group

leaders or their staff have therefore full control of the production and consumption of the members and yet are responsible not to the latter but to the state. By an Act of 27th February, 1934, the Minister of Economics has been authorised:

1. to recognise associations as the sole representative of their branch of trade and industry;
2. to establish, dissolve or amalgamate associations;
3. to amend and supplement the statutes and agreements of associations and in particular to introduce the principle of leadership;
4. to appoint and dismiss leaders of associations;
5. to compel employers and undertakings to join associations. Associations for the purpose of the law are associations and federations of associations which are charged with the safeguarding of the economic interests of employers and undertakings."

The principle of leadership has been applied to all organisations, to the Estate of Industry and Trade as well as to that of Handicrafts and to the Labour Front. There are, however, certain differences in the actual application of the principle of leadership and these differences are fundamental. The old trade unions have been destroyed and their leaders sent to concentration camps. The present leaders of the Labour Front are not old trade unionists. The leaders of the Estate of Handicrafts in the early days of the Nazi régime were former Nationalist Socialists of middle-class origin. At that period the old associations of artisans were still in existence, although controlled by reliable members of the National Socialist Party. In the third and fourth year of the Hitler régime, however, the discontent of this section of the middle-class gave rise to efforts to utilise the Estate of Handicrafts for exerting pressure upon the government in the interests of the artisans. Accordingly many representatives of the artisans were relieved of their appointments as leaders and subordinate leaders, and the members lost all control over the leaders.

The situation in the Estate of Industry and Trade is different. Its groups correspond in the main to the former private associations of industrialists, bankers, etc. The

former secretaries usually became the leaders of the new associations, and the members retained certain democratic rights. Although the Fuehrer of the Associations belonging to the Estate of Industry and Trade are appointed from above, and the Minister of Economics is the supreme leader, the Fuehrer must enjoy the trust of the members and be confirmed in their appointments by a yearly meeting and vote of the membership.

There is, therefore, a clear distinction in the application of the principle of authoritarian leadership to the upper middle-class and to the lower middle-class and the workers. In the case of the latter it is most rigidly enforced, whilst the industrialists and bankers have been able to retain certain democratic rights in the selection of their leaders.

Mr. E. C. Donaldson Rawlins (Commercial Councillor of the British Embassy in Berlin), who has an excellent knowledge of economic developments in Germany, wrote in his 1936 Report:

“All of these organisations have the same underlying principles; their construction is such that the Government can guide and control them. Another feature common to all of them is the principle that their aims are fundamentally different from those of the self-interested associations they have superseded; the new corporative organisations are primarily interested in communal service; their own special interests are subordinate to national interests.”¹

These are indeed the official principles laid down for the corporative associations by the State. Mr. Rawlins has to admit that theory and practice are not quite the same thing:

“In most cases the transition from paper to practice is still incomplete, and much of the detail given in the relevant descriptive summaries is still a matter of theoretical planning rather than of living business practice.”²

This does not mean that the state has abolished private capitalist production of food and substituted state production. All it does is to exercise control over production and

¹ *Economic Conditions in Germany*, 1936, p. 4.

prices and over the profits of the individual producers. It compels the producers of certain commodities to offer them to the state at fixed prices without even a guarantee that the state will actually purchase them. Whereas private cartels and syndicates increase the profits of the member enterprises, the state cartels and syndicates attempt to limit the rise in prices and the profits of the individual producer. These state organisations are accordingly cordially disliked by the agrarian producers, who are mainly middle-class people with small incomes. They endeavour to circumvent state control as far as they are able. There is a large amount of underhand trade. The state control of production, which is applied to only a part of the national economy, inevitably leaves many loopholes, so that the state has failed to establish effective control of production and prices.

Thus the small producers have lost many individual rights and liberties without acquiring economic security. Interference by the state has increased and the individual small capitalist is much more dependent on the state and its policy than in the past.

Chapter 5

SCHACHT AND THE ARMY

THE INFLUENCE OF THE ARMY LEADERSHIP ON INTERNAL economic policy seems to contradict what was said in another chapter. The army preparing a totalitarian war needs the support of the people and would prefer a policy which can win that support to one which is directed against the interests of the overwhelming majority of the people. In spite of this, the army leadership of fascist and semi-fascist countries backs the big capitalists against political leaders who are the protagonists of middle-class interests. In Germany the most powerful capitalist trusts could only be saved by the political influence of the army.

In semi-feudal countries, where a few landlords and war lords compel the producers to work hard, to eat as little as possible, and to serve the state, a large proportion of total output is available for lordly extravagance or to equip a powerful army. Capitalism has destroyed the power of the old feudal lords, but Capitalism in decay is leading to a society with similar features to those which distinguished the last stage of feudalism. A few family trusts and a powerful state bureaucracy and army rule the country. There are numerous small trusts and concerns: they participate in the exploitations of the country, but no longer as "independent capitalists" working in conditions of free competition. They have to use their capital, obeying the orders of the supreme lords to strengthen the military machine.

Who really decides the economic policy of the State? Hitler admitted that he does not understand economics, that he is a "mere politician" or "propagandist". He has his economic adviser, but this personal adviser has no real influence. The man who is actually in charge of state economic policy is Schacht.

Much mystery surrounds the personality of Schacht, Minister for Economics and President of the Reichsbank. He is often called "the strong man" of the Nazi Party, the "man behind the scenes". He is said to be the only man in Germany who can openly defy the Party bosses when he disagrees with them. We need not waste time discussing the personality of Schacht, but a few words must be said concerning his career. He rose from the position of a banking clerk to be a bank manager in pre-war days and was then a staunch upholder of the monarchy. Subsequently he became President of the Reichsbank as the representative of the left wing of the bourgeoisie and as one of the founders of the Democratic Party at the end of 1918. At the beginning of the world economic crisis Schacht turned to Hitler and became the favourite of the heavy industrialists of the Ruhr. He proceeded to concentrate the control of state economic policy in his hands. He was, and is, deeply hated by the "old guard" of the S.A. and the S.S. They cannot forgive him for having brought to nought the plans for a Corporate State. In their eyes he appears as the protector of the trusts, the banks, and the Jews, the enemy of "National Socialism", and the representative of the old capitalist system. They still hope to see the day when Hitler will get rid of him and deal with him as he dealt with Roehm. But Schacht, who never was a "front-line fighter"—during the war he worked in the finance department of the German army at Brussels—does not fear the threats of either the middle-class Nazis or of "the old guard". He can defy them because he is assured of the protection of a more powerful element than Hitler's "old guard".

In 1936 Goering became the official economic dictator. Even this scarcely diminished Schacht's influence. At the time of Goering's appointment many of the lesser leaders of the N.S.D.A.P., who were subject to the pressure of the dissatisfied middle-class members, looked for some definite move towards state socialism, which would appease the popular desire for real socialism and would show that Hitler and the Party were not completely dependent on the great trusts. Hence they looked to see Schacht removed

from Hitler's favour. This wish was shared by many small manufacturers who would have preferred open devaluation of the mark as a means of increasing exports and raising prices on the German market, accompanied by a reduction in the heavy burden of taxation. But Schacht was insisting upon stricter control of the finances of all the state organisations, including the N.S.D.A.P., by a Commissar of the Finance Ministry. This would have put an end to the N.S.D.A.P.'s independence and have placed it directly under the control of Schacht. He backed his demand by an argument which hinted at the forces upon which he could rely for support; he argued that economics must be controlled in the interests of the army. Hitler tried to prevent the conflict developing into an open clash, and to save his own reputation by a solution satisfactory to both sides: Goering was made the supreme arbiter for economics. Goering is an old member of the Party although most members of the old guard look upon him as a traitor. Goering's appointment was calculated to please those upon whose support Schacht relied, the army leaders. Goering himself is a general, the commander of the Air Force, and therefore subordinate to the Minister of War. But it is Schacht who enjoys the confidence on economic and financial questions of the army general staff.

The National Socialist state has suppressed or limited the rights of individual capitalists and has compelled them to obey the orders and decrees of the supreme leaders. Whence do these leaders derive their authority?

Hitler, although he has great personal influence, does not decide the main issues of policy. On the other hand it would be wrong to assume that Hitler or Schacht or Goering are merely the office boys of a single trust or trust magnate like Thyssen. Schacht is more than the representative of one big trust or monopoly concern; he represents the whole financial oligarchy, composed of the owners and directors of a few large trusts and banks. The latter struggle against one another for the largest share in the income from monopolies and from state subsidies, but they have a common interest in the general social and economic policy of the government, and Schacht is their joint trustee.

Their common interests make it a matter of vital concern for them that the small producers and professional classes should not be organised in corporations, which might form counter-monopolies against the raw materials monopolists from whom the financial oligarchy derives its wealth and strength.

Schacht's paramount economic power derives from the position of the Reichsbank, which is the most important economic institution in Germany. It has complete control of the capital market and of the main financial resources of the country. It forms a part of the Fascist state, yet it is—besides the army—the only institution to which the Fascist totalitarian principle has not been applied. When Schacht as President was asked by the representatives of the N.S.D.A.P. to “purify” the Board of Directors of the Reichsbank by eliminating those who were “unreliable” Nazis, he was highly indignant and flatly forbade any interference by “incompetent politicians” in the management of the Bank.

In his speech to the officials of the Reichsbank on 31st April, 1933, Schacht said:

“Since Herr Oberkampff (National Socialist organiser of the experts of the Reichsbank) said just now that he would very much like the Reichsbank directorate openly to avow its loyalty to the national movement, I must answer him: I don't know at all whether any but unalloyed National-Socialists are sitting in the directorate of the Reichsbank. In other words, gentlemen, that means that we cannot directly mix up our party political convictions with our activities in the Reichsbank. . . . It is of course understood that we must all agree upon the one great fundamental idea that is at the bottom of the Movement. . . . I recognise no National-Socialist representatives, I recognise no Stahlhelm representatives, I recognise no other varieties of representatives of the officials. . . . When I speak to you as president of the Reichsbank, I am neither an S.A. man nor a Stahlhelm man, but a Reichsbank man. . . . Having thus got rid of ‘party stuff’ I can say all the more frankly that I too, as leader of the Reichsbank, avow from the bottom of my heart my devotion to the Leader of the German Reich, to the People's Chancellor, Adolf Hitler. . . . To any doubt that may exist concerning the devotion of the Reichsbank to the New Movement I can give you a crushing answer: That everybody in the directorate is clear on the point that, if this Movement does not win, then chaos will reign here.”

When a difference of opinion arose between Schmitt, the Minister of Economics, and Schacht, it was Schmitt who had to resign. Schacht succeeded him as Minister of Economics whilst remaining President of the Reichsbank. Yet Schmitt himself was a representative of finance capital. He was the managing director of the greatest private insurance company in Germany, the Allianz concern. He was, however, not closely enough connected with the private banks and industrial trusts, and was less inclined than Schacht to support them as against the manufacturing industrialists.

The composition of the Central Committee of the Reichsbank indicates which are the decisive financial influences in the determination of its policy. Of its thirty-six members fifteen are representatives of private banks, six of state banks, three of large agrarian interests, two of the heavy industrialists, one of the chemical industry, one of the electro-technical industry, two of manufacturing industry, two of wholesale and foreign trade, whilst two are state officials, one of whom is a representative of the N.S.D.A.P.

A closer study of the composition of the Central Committee reveals the fact that the most influential members are the representatives of the big trusts. The chairman, F. Andreae, would not be permitted by the N.S.D.A.P. to hold the lowest post in the administration of a town or village since his wife is a Jewess and the daughter of a former democratic Jewish Minister—the famous Rathenau, murdered by the extremist nationalists who have become heroes under the Fascist régime. His son-in-law F. Andreae is, however, a member of the board of twenty-eight joint stock companies.¹

It is well known that many German capitalists dislike Schacht and his policy but they dare not endanger his position. Yet this does not mean that Schacht is indispensable or that he has the powers of an absolute dictator. His influence arises from the fact that he has the backing of the army as well as of the dominant capitalist interests, the great German trusts.

¹ It should be noted here that a law of 1936 limits the number of directorships on boards of joint stock companies which one man may hold.

It is essential for an understanding of the forces which really decide German policy to know the relations between the big industrialists, the banks, the state bureaucracy, and the army. Thyssen and other heavy industrialists financed the Nazi Party before it came to power, but this alone would not have ensured the great political influence exercised to-day by the capitalists of heavy industry if they had had no other ally.

The army leaders are not dependent upon any individual capitalist or group, although many of them are connected with the big capitalists by origin, marriage, traditions and financial interests. The closest ties exist between the leading bankers, headed by Schacht, and the generals of the army.

How has it been possible for the financial oligarchy to attain to a predominant position in the Third Reich?

On the eve of Hitler's advent to power the trusts which had backed him were financially exhausted and almost bankrupt. Many Nazis imagined that it would be a simple matter to deceive the financial and industrial magnates who had enabled Hitler to become the national leader. Why then did Hitler betray the middle-classes and allow big business to direct the economic policy of the state? It might be supposed at first sight that it would have been easier for him to crush the trust magnates who were in desperate need of state subsidies. If he had done this Hitler would have become the hero of the middle-classes. Millions of Nazi members and supporters waited, and are still waiting, for an order from their leader to attack the trusts and the banks. It was the army which made it possible for Hitler to pursue this policy.

The financial crisis of 1930-31, which had weakened the trusts and banks had enhanced the strength of the army.

The army's view of the national economy is, as we have already seen, that of professional soldiers whose main concern is the strengthening of the armed forces in preparation for war. This led them to reject the plans for a "corporate state" with guilds in control of production and prices and the destruction of the power of the trusts and monopolist iron and steel concerns. It was the army which insisted

that the Nazi Government should hand over the key positions in the national economy to the bankers. It was the army which supported Schacht when he opposed the plan to form a huge state banking trust and grant credits only according to a national plan. The army leaders insisted on the maintenance of capitalist economy and private enterprise in peace time and supported those who opposed the institution of any kind of planned economy or "guild state." Colonel Thomas, chief of the Department of Economics at the War Ministry, said:

"As to industry, we should not forget that the Fuehrer said: 'The new state will not be and does not want to be an entrepreneur. Planned economy must be rejected from the point of view of rearmament. . . . We insist upon free initiative and full responsibility of the entrepreneur in accordance with the general policy of the state.'"¹

The army does not even wish the state to abolish private enterprise in armaments manufacture. Why is the army such an ardent defender of private capitalist economy? The Chief of the Army Economic Council, Col. Thomas, made an outspoken statement about private business and rearmament industries:

"State ownership of armaments industries . . . might be justified for Italy. It does not suit Germany. We want to mobilise the full strength of the highly developed German economy. The more that factories producing peacetime goods can be put on to a war footing, the more efficient will be the German war economy.² We do not want to abolish the private initiative of the German entrepreneur."³

The army leaders want a prosperous capitalist industrial machine which can be used for war production. It is a

¹ Col. Thomas at a meeting of the Association for World Economy, Kiel, February, 1937.

² The term *Wehrwirtschaft* is a new German word which does not exist in English. German military experts distinguish two expressions which are easily mixed up: *Wehrwirtschaft* and *Kriegswirtschaft*.

Wehrwirtschaft is national economy preparing and prepared for war as well as the economy during wartime. *Kriegswirtschaft*, however, means national economy during wartime. We shall translate *Wehrwirtschaft* as *war economy* and *Kriegswirtschaft* as *wartime economy*.

³ *Der Deutsche Volkswirt*, 9th April, 1936.

sign of economic and military weakness if the state takes over or has to finance the armaments industries in peacetime: In Japan, for instance, the state owns the greatest part of the iron and steel industry because the economic conditions are so unfavourable for the development of a large Japanese iron and steel industry that private capital would never create one large enough to supply military needs. In Germany the conditions for the construction and maintenance of a heavy industry were much more favourable than in any other European country. In spite of this, state subsidies and special privileges have been given to the iron and steel industries in order to maintain an excessive productive capacity at the expense of other industries and of tax-payers.

Prosperous or "sound" capitalism no longer exists in Germany. Industrial expansion is no longer stimulated by an expansion of the markets. The shrinkage of private capitalist investments would automatically lead to a shrinkage in the productive capacity of those industries which are essential in wartime. It is not enough to have a few specialised state-owned trusts producing guns and ammunition; the state needs the militarisation of all branches of industry in war time. It has to establish complete state socialism and put an end to competition when it starts a totalitarian war.

Another factor is important for the army leaders. They defend their status as an independent caste by defending the capitalist system. Moreover, they believe that the economic concessions to the middle-classes which some Nazi leaders wished to give by cutting down the profits of the big capitalists would endanger the financing of the rearmament programme. If the people, or even merely the middle-classes, received a larger share of the national income, they would consume more, and less money would be available for the army. In Goering's classic phrase, it was a choice between guns and butter. From the military point of view the support given to the trusts and large-scale concerns is justified so long as the latter ensure the existence in peacetime of a large productive capacity of essential war materials.

The army leaders cannot escape the crisis of capitalism. They therefore support the grant of state subsidies to the vital war industries and encourage state interference in the interest of those industries which could otherwise not maintain an inflated productive capacity. This applies especially to the heavy industries.

The common interests of the trusts and of the army ensure the latter's support for the former. It is true that some army officers feared a loss of morale among the people and the soldiers, if Germany were to be militarised under the economic domination of the trusts and big banks, since this meant that the people would suffer materially and would necessarily be discontented. But any other policy would have entailed voluntary abandonment of the struggle for imperialist expansion and world supremacy; it would have shown that Germany is unable to defy the power of British and French imperialism. Their professional outlook made it impossible for the majority of the army officers to favour any other policy than that of supporting the trusts.

There is a clear understanding between Schacht and the bankers on the one hand and the army on the other. Col. Thomas, Chief of the Army Economic Council, supported Schacht's economic dictatorship against the Nazi leaders who were opposed to him.

"The national economy must be in the hands of business men. I regard it as essential that the supply of foodstuffs, industry, commerce, raw material production, foreign trade, the financial system, transport, and the work of the Labour Ministry should be centralised in one hand in case of emergency."¹

The basis for the collaboration of the economic dictator Schacht with the army is the agreement that the power concentrated in the hands of Schacht shall be exercised in the interest of the army as much as in the interest of big business. The army supports private capitalist economy while the latter has to assist in the organisation of war economy. Accordingly production of "unnecessary" goods in wartime must wait upon that of "necessary" goods, which means war supplies.

¹ *Der Deutsche Volkswirt*, 9th April, 1933.

Corporate organisation of industry would substitute for capitalist competition a centrally organised authoritarian system. In practice, however, the government has merely made all the necessary administrative arrangements for switching over peace-time economy to a planned, centrally directed economy when war comes. In other words, the bureaucratic state machine could control production and consumption in practically every industry, but has not yet done so. The preparation for doing so is part of the preparation for war. The state will be able to abolish private capitalist production as soon as the whole national economy has to be concentrated on war needs. In peace-time corporate organisations have no vital function. Their real function has nothing to do with the tasks they fulfil on paper. They are the instrument prepared for switching the industrial machine from its peacetime function to its wartime function. When the time comes it will serve the "needs of the community"—the needs of war.

Chapter 6

THE POWER OF THE BANKS AND TRUSTS

SCHACHT'S MAIN CONTRIBUTION TO THE MAINTENANCE OF private capitalist economy was the rescue of the German banks. The history of German banking since the war has been a dramatic one, which has however ended happily for the bankers. It is well known that in pre-war days the German banks did most of the financing of industry. At the end of the war, however, some industries were so heavily subsidised by the state that they were able to consolidate their position with hardly any assistance from the banks. During the 1923 inflation period the banks were weakened whilst the heavy industrialists, in particular Stinnes of the Ruhr, got control of hundreds of industrial and commercial concerns and even tried to gain control over the banks. When inflation came to an end and credit was tight, the banks were able to raise credits abroad and so recovered their position. The new Stahlverein was the creation of the Danat Bank and of Golschmidt rather than of Thyssen. The control of a capitalist concern does not depend merely on the shareholders, it also depends on the creditors. The Stahlverein had always been heavily indebted to the banks, in particular to the Danat Bank and the Dedi Bank. The bulk of the credits given by the banks during the period 1925 to 1930 had gone to the large-scale industrial concerns and the trusts. The critical position of these concerns was decisive for the stability of the banks. It is a special feature of Schacht's policy that he has strengthened the financial position of precisely those large concerns and trusts which were most heavily indebted to the banks. A very large part of the profits obtained from rearmament has been handed over to the banks in repayment of the loans which were regarded as lost in 1932. The rearmaments boom

has enabled the banks to recover these loans in full and to reduce the losses they sustained in the world economic crisis. They have once more become financially powerful. Most industrial concerns have been able to reduce their debts to the banks. They might have made large profits at the cost of the banks if Schacht had decided upon a new devaluation of the mark. Many indebted capitalists demanded such a devaluation and expected it. It was precisely those capitalists who were almost bankrupt, or very heavily indebted, who helped the Fascists to acquire power, yet economic policy under Fascism is influenced far more by the capitalists who are creditors than is the case in the democratic countries. In the latter the debtor capitalists have benefited from devaluation of the currency or from inflation in spite of the opposition of the banks. In Fascist Germany and Italy, on the other hand, devaluation of the currency was either decided against, or delayed in the interest of the bankers.

Schacht further managed to transform those banks which were *de facto* state banks in 1932 into private banks belonging to capitalist groups which are closely connected with the financial oligarchy. Since most of the private banks in Germany were either bankrupt or kept going only by generous financial assistance from the state, and since the state owned a large percentage of the shares of the big banks, it would have been easy for the Fascist régime to establish state control of the German banking system. A huge state banking trust could easily have been formed to control credit and investment. Moreover the propaganda slogans and the programme of the National Socialists had promised to abolish private banking. The small commodity producers and manufacturers were indebted or could not get working capital from the banks and so desired to see them nationalised. They hoped that state banks would be more generous in granting credits and less closely bound up with the trusts and big capitalist concerns. The fact that in 1932-33 the banks were bankrupt, and thus dependent on the state, encouraged the idea that capitalist competition and private enterprise were doomed and that an organised national economy would take their place. Schacht as

Minister of Economics destroyed these hopes. He rescued the banks by generous state subsidies and pursued a policy which has restored banking as one of the most profitable and attractive fields for capital investment.¹

The largest bank, the Dedi Bank (*Deutsche Bank und Disconto-Gesellschaft*) had been forced in 1932-33 to deposit 50 million marks worth of shares (37 per cent of its share capital) as a guarantee for credits with the Gold-Discont Bank which is a subsidiary of the Reichsbank. In 1935 the government purchased an office building from the Dedi Bank for the generous price of 14 million marks. The purchase money was paid by the return of this amount of shares to the Dedi Bank by the State. The rest of the shares were afterwards sold by the Gold-Discont Bank. Thus the shareholders of the Dedi Bank were enabled to increase their control of its capital and state influence was practically eliminated.

Another large bank, the Compri (*Commerz und Privat Bank*) was by 1932-33 almost nationalised, since 71 per cent of its share capital was owned by the state. But in 1936 the Government sold 22 million marks worth of shares in this bank to "private groups." In order to attract purchasers the Government renounced its preference rights to the profits of the Compri Bank. Mystery surrounds the new owners of these banking shares since the government has never published any details of the transaction. The net result is that a majority of the shares are again privately owned. The state now has only 43.7 per cent of the share capital instead of the previous 71 per cent. Since the Gold-Discont Bank also sold out part of the Compri shares it held, state control over this bank was yet further diminished.

¹ At the Congress of the Academy of German Law on 30th November, 1935, Schacht proclaimed the following basic principles of National Socialist economics:

1. That juridical security in economic matters is indispensable.
2. That joint stock companies are a suitable instrument . . . for the development of modern enterprises.
3. That the willing collaboration of managers and business leaders is indispensable.
5. That "leaders" (of business enterprises) should not be nominated by the Government.
7. That relations of mutual confidence . . . must exist between the factory leaders and the shareholders.

The share capital of the other big bank—the Dresdener—has a similar history. When Hitler came to power 97 per cent of its share capital was state-owned. At the beginning of 1937 the state still owned 90 per cent, but it has been announced that ‘in principle the authorities are agreed that a reversion to private ownership should be effected in the case of the Dresdener Bank’¹

It would nevertheless be incorrect to assume that no changes have occurred in the German banking system. Although the capitalist banking trusts have been re-created, they no longer have the same influence as in the past. Prior to the world economic crisis these big banks were run by bankers who enjoyed enormous influence. They were the trustees of the investors whose capital they administered, they could grant loans and credits to industrialists, or refuse them. They collaborated closely with their principal debtors. They were accordingly assured of a predominant influence over most of the big trusts and large scale industrial enterprises. After the inflation period the foreign banks became the most important creditors of the German banks. The latter became the trustees of foreign finance capital which was disinclined to invest money in Germany without the guarantee of the big German banks. This foreign influence was destroyed as a consequence of the banking crisis of 1930-31 and the subsequent state restrictions on foreign payments. The new banking trusts, the *Deutscher Reichsbank*, the *Commerz und Privat Bank*, the Dresdener Bank, and most of the others, are far more dependent on the State and on Reichsbank credits than in the past. They are not as strong financially as they were before the crisis, and they are subject to a stricter control by the Reichsbank. They are no longer in a position to decide who shall be granted credits and what new investments are to be made. They cannot reach any important decision or do any big business without the express consent of the Reichsbank or of Schacht. But since Schacht has more authority on economic questions than any of the Fascist “leaders”, the bankers can afford to speak contemptuously about the Fascist agitators who cling to the slogan of fighting the banks and trusts. They speak

¹ *Der Deutsche Volkswirtschaftler*, No. 17 of 1937

ridicule the old "Feder theories"¹ and regard themselves as the economic leaders of the Third Reich.

The economic power of German capitalism is to-day concentrated in the hands of a few banking and trust magnates more definitely than in pre-Fascist days, but these magnates have to serve the Fatherland and must pay due regard to the "interests of the community". What this interest consists in is decided by Schacht and the Reichsbank.

The problem of achieving "National Socialism" was ready for solution in 1932. The biggest iron, steel, and banking trusts, were bankrupt and dependent on the state which had bought large blocks of shares in these enterprises. The big trusts became state enterprises. The question who was to control the state in order to control the trusts and banks remained unsolved.

The victory of Hitler strengthened the political influence of Thyssen and other steel magnates who had backed Hitler and had been the main contributors to his party funds. The first thing they did under Hitler was to use the state power to hand over the trusts and banks which had become state property to the families which had formerly controlled them. Instead of control of the trusts by the state, state and trusts were again separated. These transactions, financed by the state itself, were called "Sanierung"—recovery of industry—with the final result that a few families have been able to become the sole rulers of Germany's most important industrial enterprises.

The capitalists of heavy industry had always had a decisive political influence in Germany, and were closely connected with the army.² It was the armaments race inaugurated at the end of the nineteenth century by German militarism which made possible the rapid expansion of the German iron and steel industries which were from

¹ Feder was the author of the programme of the N.S.D.A.P. His middle-class theory of "interest slavery" was formerly regarded by Hitler as the clue to the hidden power of Jewry.

² It is a peculiarity of those capitalist countries which did not have a bourgeois revolution that a few families closely connected with the army are in control of extremely powerful industrial trusts and vast landed estates. These family trusts exist in all Fascist and semi-Fascist countries. In Germany they have come to power under the Hitler régime, in Japan they have for long been in power.

the very beginning well organised in a few powerful trusts. In Bismarck's time they had already formed the first cartels and syndicates, and Krupp was a personal friend of the Kaiser's. When German militarism collapsed in 1918 their old power and influence appeared to have been destroyed. But the Weimar Republic granted them so many new privileges and subsidies that they were able to consolidate and increase their economic strength and political influence. The rapid advance of German militarism would never have been possible if the iron and steel industries had not possessed a large surplus productive capacity. The Versailles Treaty deprived Germany of 20 per cent of its iron and steel productive capacity. In 1929 the iron and steel works were able to produce more iron and steel than before the war in spite of the fact that the territory of the German state had been reduced and that the depression and the limitation on armaments set by the Versailles Treaty had severely restricted the market for iron and steel. New plants were set up and the capacity of the old works was expanded.

The maintenance of high prices on the home market, which was assured by the cartels and syndicates and by state protection against foreign competition, had attracted fresh capital so that the banks had been willing to finance new iron and steel enterprises in spite of the scarcity of credit and in spite of the fact that so large a proportion of the existing productive capacity could not be utilised until the present rearmament boom started. It is clear to-day that the privileges which were given to the iron and steel industry under the Weimar Republic were not given merely in the interests of a few shareholders, but also for the sake of preserving the basis of the future military strength of the country. The long-standing identity of interest between the militarists, who wished to keep a large reserve capacity for the fulfilment of future large-scale rearmament plans, and the steel magnates, who wished to rescue their invested capital and earn dividends on their inflated capital, has been decisive in preserving the political power of the heavy industrialists in spite of their financial difficulties and the bankruptcy which overtook them when Hitler came to power.

An early start in rearmament was a question of life and death for the Steel Magnates and in particular for the Stahlverein. In 1931-32 the 800 million marks share capital of the Stahlverein was almost lost. Flick, the former owner of a majority of the shares, was glad that he had sold his shares to the Government in 1931 when Bruening was Chancellor. The steel works were working to only 20 per cent to 30 per cent of their capacity. The returns were insufficient to pay the overhead costs and the shareholders had no hope of getting a dividend. The Stahlverein was also heavily indebted; there were huge short term loans from the banks outstanding. The creditors, i.e. the banks and the state which controlled the banks and subsidised them, were the real owners of the Stahlverein. New state subsidies were insufficient to solve the problem. The question was whether the German iron and steel industry would definitely close down half or two-thirds of its plant and whether the steel magnates and the banks would lose a corresponding part of their investments. The only way in which these investments could be saved was through rearmament. Rearmament immediately brought renewed prosperity to the iron and steel industry.¹

The close association of Thyssen, the managing director of the Stahlverein, with Hitler, could not have saved the iron and steel trusts from the fate threatening them in 1931-32 if the rearmament boom had not created profits for the steel trusts on a scale never known before. For the first time since the World War it was possible to utilise the productive capacity of the iron and steel works to the full and, what was even more important, the boom was due mainly to the demand on the home market. This meant that the prices realised were the high prices fixed by the cartels and not the low export prices.

Once the rearmament boom was well under way, the Stahlverein acquired a new status. The old Stahlverein had controlled the most important sector of the German

¹ The profits of the Stahlverein rose from nil in 1933 and 1934 to 8.88 million marks in 1935, and to 22.86 million marks in 1936. Flick's Central German steel trust increased its profits between 1934 and 1936 from 2.43 million marks to 3.56 million marks. The Castellango Company of Ballestrin was able to distribute a dividend (5 per cent) in 1936-7 for the first time since 1933.

iron and steel industry; the new Stahlverein is concentrated entirely in Western Germany.

There are three steel trusts instead of one as formerly. The Stahlverein (West Germany), under the control of Thyssen, the Central German Steel Trust under the control of Flick, the Silesian Steel Trust under the control of Ballestrem. These three trusts own the biggest iron and steel works in Germany. This is the result of state donations as well as of the partial expropriation of other capitalists. (For example the Jewish industrialist Silverberg, who was in control of the Rheinische Braunkohlen A.-G., an independent coal enterprise in Western Germany with huge financial reserves, was succeeded by Thyssen who used his new power as Secretary of State to get rid of his Jewish competitor and to get hold of the funds of the Rheinische Braunkohlen A.-G.).

In 1932 Thyssen owned only 6.6 per cent of the shares of the Stahlverein and the state owned most of the rest. To-day Thyssen controls the majority of shares in the new Stahlverein while the state has lost its influence on all steel producing enterprises.

Flick was heavily indebted to the banks in 1932 and had lost his control of the Stahlverein. To-day all the iron works of Central Germany belong to his family trust.¹

Ballestrem, the biggest landed proprietor in Silesia, is to-day in complete control of the iron and steel works of Silesia; in 1932 he had lost his influence and the state was in full control of the iron and steel works.²

The case of Otto Wolff, formerly a large shareholder of the Stahlverein and economic adviser to General Schleicher, also illustrates the trend in the formation of family trusts. He bought the share capital of several iron, steel and coal companies in the Saar district.³

¹ Flick's holding company is the Siegener Eisenindustrie A.-G. It has been transformed from a joint stock company into a private company which does not publish any balance sheets or reveal its profits to the public.

² In 1937 the state sold 45 per cent of the shares of the Vereinigte Oberschlesische Hüttenwerke, which has an iron and steel monopoly in Silesia, to the Castellengo Company. This Company belonging to the family of Ballestrem, owns 100 per cent of the shares of the Vereinigte Oberschlesische Hüttenwerke.

³ Stolberger Zink A.-G., Eisen- und Hüttenwerke, Bochum A.-G. (in 1937), Gebrüder Sgamm G. m. b. H. (one of the big shareholders).

Other state owned industrial interests were also handed over to private capitalists: for example 8·2 million marks' worth of shares of the Hamburg-Südamerikanische Dampfschiffahrts A.-G. to a group of Hamburg bankers and industrialists (in November, 1936); the majority of the shares of the Deutsche Schiffs-und Maschinenbau A.-G. to a group of capitalists in Bremen (March, 1936). No particulars about the price paid for the shares or the names of the capitalists who bought them were ever published.

In France a partial state ownership and control of armament industries has been decided upon by Parliament. Without going into the question of how far these reforms are likely to be effective in practice, it is significant that in Fascist Germany the government has declared that the armament industries are to remain in private hands.

“Germany, in contrast to other States, does not want to nationalise the armament industries because National Socialist economic policy has other means of guaranteeing the correct management of these politically important concerns.”¹

The execution of the Four Year Plan and the erection of new factories with the object of increasing the domestic production of raw materials and so rendering Germany as far as possible economically self-sufficient, although inaugurated and financially supported by the state, will not lead to an extension of state enterprise. The new works are to be left to a few powerful “family trusts”.

¹ *Der Angriff*, 1st December, 1936.

Chapter 7

SCHACHT AS THE FINANCIAL "WIZARD"

SCHACHT'S METHOD OF FINANCING GERMANY'S VAST rearmament programme without inflation on such a scale as to cause the collapse of the banking and credit system, had raised something between 20 and 33 milliard marks for the state during the first five years of the Nazi régime. Professional economists as well as laymen have wondered how this has been done, in spite of Germany's financial difficulties in 1931-32, when she could not cover a budget deficit which shrinks into insignificance besides the budget deficit under Fascism.

Schacht is not a wizard. Three sources have enabled him to finance German rearmament. First there is taxation. The revenue from direct and indirect taxation rose by 4.8 milliard marks (73 per cent) between 1932-33 and 1936-37. As compared with 1928-29, there has been a rise of 2.1 milliards (24.1 per cent), in spite of the fact that industrial production as a whole in 1936-37 was 11 and 6.3 per cent below the 1928-29 level. Moreover, the reduction in expenditure on unemployment relief has enabled the state to spend a larger proportion of its revenue on armaments. Expenditure on unemployment relief fell from 2.8 milliard in 1932-33 to 800 million in 1936-37.

Secondly the reserves of gold and devisa have been spent; but since these were not large, and since Germany has now got secret reserves of both, this cannot be accounted an important source of revenue.

The most important financial resources consisted in the reserves accumulated for the replacement of outworn machinery and equipment. These Schacht took over for financing rearmament. This method is the most important, since it raises the least economic difficulties, but in the end

it may prove to be the most disastrous for German national economy. Schacht has laid his hands on all the liquid funds available which could not escape state control. This capital, raised by compulsion was, however, not sufficient. State bills were issued to cover a large amount of short-term indebtedness. These bills still lie in the state banks, or have returned to the state, and Schacht is now looking for fresh sources of capital. Bank deposits and money put in the savings banks and the resources of the insurance companies are normally used for investment in industry, agriculture and public utilities. Such investment increases productive capacity and leads to more houses and other necessities being built or manufactured. To-day Schacht is the "authoritarian" dictator of the capital market and compels all investors to buy state bonds or bills, or to contribute to the financing of rearmament. Of course, the investor is promised a return on his capital, but the terms are unattractive and the risk appears great. While the big banks and trusts are able to hide their reserves, or to reinvest them, the savings banks, insurance companies, etc., are unable to do so.

These enterprises were dangerous competitors to the large private banks, especially after the 1923 inflation, which had diminished public confidence in the banks. People who had lost their fortunes wanted absolute security for their future savings. It is one of the ironies of fate that it is precisely the banks and trusts which were attacked most fiercely by the Nazi propagandists which proved most capable of avoiding the most risky and unproductive investments. Those which have had to take the risks, are the financial institutions in which the savings of the small man, and indeed of all those who prefer a safe and certain return to a speculative investment, are deposited.

The general insecurity of existence made people more anxious than ever to save money and to buy some safe security with it. This led to certain new developments in the centralisation of money capital. Whilst the big trusts became more powerful after the deflation period, and were able to accumulate a larger share of the national income than before, the savings of the middle-classes tended to

flow towards the insurance companies and state banks.¹ These institutions are now completely under Schacht's control, and their resources have been mobilised to finance German rearmament. New laws and administrative measures now compel all banks and savings institutions to invest their liquid capital in state bonds and bills.

The increase of the stock of state bills at the *Girokassen* is remarkable because the *Girokassen* have to be especially careful to invest their money only in liquid assets which can be easily turned into cash. The state bills will certainly not be paid back in near future. It is indeed doubtful whether they will ever be paid back. These bills are only counted as liquid assets because the Reichsbank promises to discount them at any time. The Reichsbank would, however, experience the greatest difficulties if those bills were presented to the Reichsbank for payment, and if the Central Issue Bank were asked to meet its guaranteed obligations.

Many small capitalists attempted to escape the risk of losing their capital and income by buying insurance policies. The business of insurance companies flourishes when the capitalists do not believe in a return or continuance of prosperity. German insurance companies experienced almost a boom from 1933 until 1936. The amount of insurance capital rose by more than 90 per cent.² But will the insurance companies be able to compensate losses and fulfil their obligations if depression and economic decline come instead of prosperity? The insurance companies have had to invest the money they got from the insurers to buy State bills and bonds.³

Even the funds kept by the banks for current payments have been used to buy state bonds and bills. This is shown by the fact that the securities rose from 3.7 per cent of the deposits in the savings banks in 1929 to 17.5 per cent in 1932 and to 25.4 per cent in 1935. As regards the state social

¹ The deposits in the private banks fell from 763 million marks in 1929 to 399 in 1932. The capital of the savings banks rose from 1,000 million marks in 1913 to 920 in 1932.

² The amount of insurance capital rose from 23,161 million marks at the end of 1932 to 23,161 million marks at the end of 1936.

Nationalsozialistische Wirtschaft, 1937, p. 178.

³ At the end of 1932 14 per cent of the investments of the insurance companies were "securities," at the end of 1936 "securities" were 25 per cent of the investments.—*Ibid.*, p. 178.

insurance companies, the percentage rose from 11·7 per cent in 1929 to 25·8 per cent in 1932 and to 36·9 per cent in 1935. The percentages for the private life insurance companies were 12·9 per cent, 13·5 per cent, and 22·5 per cent.¹

According to a statement published in *Die Bank* on 31st March, 1937, the savings banks alone bought 2,270 million marks' worth of the new bond issues as against only 1,388 millions purchased by the "market".

The state bonds and bills count as liquid assets for the banks and insurance companies, because they can at any time be converted into cash at the Reichsbank. In principle the Reichsbank is compelled to discount or buy the paper. But they are not commercial bills to be repaid in a few months' time. They really represent a state deficit or an unproductive investment (armaments). This does not concern the bank or the depositor as long as the state pays the interest and amortisation, and as long as there is no general demand for the conversion of the state bonds and bills into cash. But any open crisis in the state's finances would render the bonds valueless, unless the Reichsbank bought them all up. This would mean inflation on a large scale, or, in other words, state bankruptcy.

The genius of Schacht has made German capital liquid once more by making state bonds and bills into liquid assets and giving the capitalists a guarantee that the Reichsbank will always pay cash for them.

In practice the situation is not quite like this. The whole system still works because the savings banks, insurance companies and even private capitalists are not allowed to sell their state bonds and bills to the Reichsbank. The Reichsbank has the right to enquire why the bills or bonds are being sold, and for what other investment the money is required. The private capitalist is not forbidden to keep his money "liquid" as a deposit in the bank, but the bank has to buy state bonds or bills with the money so deposited. The savings banks, of course, dare not do anything which the Reichsbank or the finance dictator forbids.

¹ Statement by the Finance Minister Schwerin von Krosigk in *Probleme des Deutschen Wirtschaftslebens*, 1937, p. 609.

All these private capitalist institutions have to serve the "national cause", i.e., to finance rearmament. The close association between the general staff of the army and the financial aristocracy found its clearest expression in the dictatorship imposed by the Reichsbank under Schacht over the capital market, which prevents any investment except in enterprises essential to rearmament.

Schacht might argue that his policy was the only one which could utilise the money capital which has been accumulated. It is true that in the years preceding the Fascist régime private investment had shrunk to small proportions. But investments always shrink during a depression, and the longer the depression lasts the more funds will be available for investment during the subsequent period of prosperity. The "prosperity" of Nazi Germany has nothing in common with a cyclical period of prosperity. Investments have, in fact, shrunk to even smaller proportions under Fascism. Statistics of capital issues may appear very dry and uninteresting to the reader, but the figures given here illustrate most extraordinary and astonishing facts relevant to the effects of Nazi rule. They reveal a process similar to that which went on during the war.

The lowest estimate of the amount of new government bills put into circulation is considerably greater than the total freshly accumulated money capital. For the first half of 1937 the *Institute für Konjunkturforschung*¹ estimates money capital as 2.3 to 2.5 new milliards of marks, but the increase in government obligations which should be funded by the capital market amounts to at least 5 milliards. It is clear that Schacht has had to raise more money for rearmament than was in existence and that there has been no residue for investment in other enterprises.

The 1936 annual report of the Reichsbank shows that the resources of the savings banks and insurance companies have been used entirely for financing government expenditure.

¹ *Money Capital in 1936*

Savings banks	700-800	million marks
Co-operatives	200-300	" "
Insurance Companies	1,200	" "
Other credit institutions	250	" "

"The only important loan issues which were subscribed during 1935 were government loans. Most of them, however, were taken over by the savings banks and the insurance funds. . . . In general the market for new capital issues, which in previous boom periods has always been the principal medium for the passage of long-term capital has on this occasion shown no signs of activity. . . .

"Neither the savings banks nor the insurance companies were in a position to make any appreciable contribution to the satisfaction of capital needs other than the funding requirements of the government. . . . Nor was there any other place for long-term flotations in the other sections of the market."

Of course, the ordinary state banks and trusts have also had to buy state bills.

Between 1933 and 1936 at least 12.5 milliard marks had been accumulated by the savings banks, insurance companies and private banks.¹ Schacht offered as many state bonds and bills as he could "sell" or turn into cash. From 1932 until 1936, 4,200 million marks' worth of new state loans and state railway company loans, in addition to the state bills amounting to between 15 and 30 milliard marks, were issued. The minimum figure is the official estimate, but the maximum estimate is probably nearer the truth.

It is the big trusts which control heavy industry which actually get the money of the small man who invests his savings in an insurance policy or deposits it in the bank. The banks also profit. The trusts were formerly heavily indebted to the banks, but have been able under the Fascist régime to pay off their debts. In other words, the banks have been able to liquidate their frozen assets and even to recover sums written off as bad debts. Thus the savings of the small capitalists and middle-classes have been taken by the state to finance rearmament, and have thus been put at the disposal of the trusts and banks. Whereas in the last days of the Weimar Republic the big banks had immobilised their capital and were dependent on state credits, whilst the insurance companies and saving institutions had liquid funds, under Fascism the position has been reversed.

¹ From 1933 until 1935 the banking deposits rose by 2,919 million marks, the savings deposits by 2,759 million marks, the insurance funds by 2,039 million marks. The growth of these figures for 1936 was estimated according to the figures of 1935.

"The definite aim of the German credit policy is now to

perity. Accordingly the German capital market will continue to be characterised by a series of public funding loans and raw material loans."¹

Funds which would formerly have been spent on the replacement of worn-out machinery and new private investment are now taken by the state to finance rearmament.

The resources of the capital market in coming years will be mainly used to meet state obligations already incurred. It is therefore impossible for Schacht to continue issuing more and more state bonds.

The big industrialists try to avoid investing their profits in state bonds or bills. According to the estimate of the State Statistical Office (*Statistische Reichsamts*), the industrialists have reinvested 5 milliard marks in their own enterprises. Their only alternative was the purchase of state loans. But even this "self-financing" is limited by state control.

In 1936-7 some exceptions were made to the prohibition on private capital issues. The exceptions applied to the financing of new enterprises under the Four Year Plan. These new works are of great military importance and are run by the big trusts which are so closely associated with the banks.²

These developments would be comic were they not almost tragic. The small industrialists supported Hitler before he came to power precisely because they wished to escape from the financial dictatorship of the banks and monopolists, and hoped for cheap and easy credits for

¹ *Germany's Economic Development, 1937*, Reichskreditgesellschaft, p. 54.

² Issues of shares and debentures for the financing of the "Four Year Plan" (in million marks)

Krupps	239
Mulheimer Bergwerke A.S.	196
Chemische Werke Essen Stahlwerke A.G.	231
Hösch-Köln-Neuzem (Schwarzpulver)	247
Masfelder Kupferbergbau	156
Gelsenberg Benzol A.G.	1035
Union-Rheinische Brauerei	742
Ewald-König Ludwig	403
	<hr/>
Total	2752

themselves. But to-day they are sternly refused any credit and only the trusts can obtain such capital as is not taken over by the state.

The total amount of government short-term credits which must be funded on the capital market is from three to eleven times greater than the yearly aggregate capital available on the capital market. This means that the total supply of money available on the capital market for the next four years at least, and almost certainly for much longer, will be needed to consolidate the debts of the state.¹

Some economists have argued that the total amount of German state debts is much less than the indebtedness of other states. This is correct. Inflation annihilated the old debts. This greatly assisted the financing of rearmament. German militarism to-day is still profiting from the inflation of 1923. The debt service of the German State accounted for 13.6 per cent. of the revenue in comparison with 36.6 per cent in Japan, 21.2 per cent in Italy, and 25 per cent in Great Britain. But the rate of increase in state indebtedness is what matters most as regards the capital market. German state indebtedness rose 1.31 milliard marks annually from 1908 to 1914; and 2.3 milliard marks annually from 1924 to 1933; since 1933 it has risen by at least 5 milliard marks a year.²

From the point of view of the stability of the financial and credit system this is an extremely dangerous development. When the German banks collapsed in 1931 their main weakness was shown to be the fact that short-term credits had been used for investments which could not be converted into cash, or which had become valueless. The same process is going on under the Nazi régime, but on a much bigger scale, and with the difference that less foreign capital is involved in the process. This must aggravate the difficulties of the future, because there will be less chance of avoiding the full effects of a banking and credit crisis at the expense of foreign creditors.

¹ This estimate has been made on the basis of the total supply of money capital to the capital market in 1936 according to the official Nazi estimate of 2.2 to 2.5 million marks.

² *Oeffentlicher Kredit und Wirtschaftskrise, Einzelschriften des Statistischen Reichsamts*, No. 27, 1933, p. 21.

Chapter 8

ASPECTS OF GERMAN INDUSTRIALISM

THERE IS A GENERAL TREND IN THE DEVELOPMENT OF capitalism towards inequality between the production of capital goods and the production of consumption goods. The former tend to increase out of proportion to the latter, but this cannot go on indefinitely, since the demand for capital goods must fall if the production of consumption goods does not keep pace with it. This was first pointed out by Marx in his analysis of the causes of economic crises. The disparity was most marked in Germany. Whilst British industry developed first on the basis of textile exports, German industrial growth was based from the beginning upon huge exports of iron, steel and machinery. Hence the vital necessity for German capitalism was the continuing industrial development of the world, on which her large export of capital goods depended. So long as world capitalism was expanding and prosperous, Germany's industrial machine could go on working at full pressure, supplying the world with the means for further industrial development.

A few figures will illustrate Germany's pre-war development.

Total Export of Goods 1913, 1932 and 1936.
(in million dollars)

	1913	1932	1936
Germany	1,780	1,367	1,135
Great Britain	1,142	1,279	1,296
U.S.A.	452	1,576	1,427

In 1932 Germany had sunk to second place and in 1936 to the third place.

Before the war Germany was second only to the U.S.A. in iron and steel production, and her share in the total

world production of steel was 22 per cent in 1913, 13 per cent in 1919, 14.2 per cent in 1932 (including the Saar), 15.2 per cent in 1936 and 13.5 per cent in 1937 (May).

In spite of her large export, the greater part of Germany's iron, steel and machinery production was before the war sold on the home market. In 1929-30 only 28 per cent of her total production of machinery was exported.

It is well known that in times of crisis and depression the production of capital goods falls more steeply than that of consumption goods. In 1932 in Germany the production of the former had fallen 64 per cent below the 1925-29 average.

Indices of Production (A) and Consumption (B) Goods
Average 1925-1928—100 (first quarter)

		1932	1934
Germany	A	36	65
	B	86	101
Great Britain	A	78	97
	B	92	98
France	A	78	76
	B	73	95
U.S.A.	A	34	49
	B	84	89

(League of Nations: World Production and Prices, 1929-1934, p. 60)

Post-war Germany had lost her pre-war position as the leading producer of iron and steel and machinery, and the monopoly of certain chemical products she formerly held. But immense sums were invested in the renewal, modernisation and extension of her heavy industry. The effects of the Versailles Treaty were quite different from what its perpetrators had intended. The German militarists after the war realised as clearly as Bismarck had done that German militarism will live or die according to whether Germany can or cannot produce more and better armaments than any other European power, and they had no intention of letting their victorious enemies annihilate them by the Versailles Treaty.

The Versailles Treaty, by compelling Germany to disarm, facilitated an early recovery of German capitalism

from the losses and depreciation resulting from the war. Reparations were paid out of foreign loans. Immense state subsidies were granted to the big industrialists, in particular to those who owned the plants which would produce armaments. The iron and steel trusts received enormous amounts as compensation for the losses sustained through the Versailles Treaty, and again for the losses suffered through the occupation of the Ruhr in 1923. Inflation wiped out their debt charges and foreign loans were easily obtainable for the modernisation and extension of their plant. Schacht's manipulation of the currency prevented the repayment of these foreign loans. Banking credits and state subsidies enabled German capitalism to renew and maintain the machinery essential for armaments production. But the productive capacity far exceeded the demand of the home market, and the world economic crisis, by reducing exports, destroyed the old foundations of German heavy industry.

Investments have been reduced on account of the glut of goods on the market. A gigantic industrial machine has been created able to produce more and more capital goods which can only be utilised under the capitalist system if investments increase in proportion. But since such increased investment would increase the glut, the financiers are afraid to invest.

Whereas new capital was not invested in new productive enterprise during the world economic crisis for fear it would be wasted, under Fascism investment, which must certainly be a waste of capital, has occurred on a gigantic scale. Moreover, the new state investments are mainly for the production of armaments to destroy both human beings and capital.

Accumulation of guns, bombing planes and warships cannot be called productive investment. Even the new motor roads are not intended for the convenience of commercial traffic, or of tourists. These investments are also for destructive purposes. Yet all these unproductive or destructive state investments have been made at the expense of productive investment.

It is true that much new machinery has been installed

and new works built. But this has not been due to a genuine increase in the demand for goods. Most industries have been compelled to use home-produced raw materials which are either inferior or substitute products. This has necessitated technical changes and the use of different machinery. Much work has been created, but little wealth.

“Germany is far behind her capabilities, not because her working population work too little, but because so large a proportion are engaged in unproductive work and in piling up overhead charges; because so large a proportion of her resources remains dormant or is misdirected without due reference to calculations of ultimate advantage; because her present economic situation is so little adapted to developing her real but latent powers.”¹

The vital question is whether this new plant will ever be able to work at a profit. It will only be able to do so if war completely destroys the international division of labour and the army insists on increasing production at any cost. This applies with particular force to the new industries making substitute raw materials.

Private capital is financing these new works only on condition that the state guarantees both amortisation and dividend. The government never publishes any figures concerning the guarantees which the state has given to private enterprise.

Before the World War some economists calculated and “proved” by figures that a long war was impossible because it would be too expensive. No state would be able to finance a long war. Yet Germany financed a war lasting more than four years. Production rose considerably during the war years, but this was not a sign of the development of the productive forces, since the goods produced were mainly machines of destruction. Statistical surveys distinguish only consumption goods and means of production (capital goods). This distinction does not go far enough, in fact it is confusing. Real “means of production” are for the extension or improvement of industry. Yet iron and steel as well as armaments come under this heading, even when never used.

¹ A. Parker, “The Economic Outlook of Germany,” *Lloyds Bank Monthly Review*, July, 1937, p. 392.

for this purpose. It is accordingly possible for the general index of production to rise whilst investments decline and productive capacity deteriorates. This happens in war-time, when the term "means of production" designates in fact only "means of destruction". In an article published in 1916 (reprinted in 1936), the German economist Arthur Feiler thus described the financing of the war and the effect on German industry:

"Germany is spending about two milliards of marks a month on the war. About one-sixth of the national capital will thus have been spent by the end of the year. Whence do all these milliards come? The shells are shot off, the guns are worn out, motors are used until they become old iron, the soldiers' uniforms are worn into rags, and so forth. We work exclusively for the war, and a great part of the costs of war is covered by this work. For the rest we are living on capital. The first and chief source is the fact that we are using up our stocks. The copper reserves in the home . . . as well as the accumulated raw materials in the warehouses. Another source, which also means a drawing on capital, consists in the fact that plants are worn out without immediate repairs being made. In peace time the industrialist regularly writes off big sums for the depreciation of buildings, machinery and other assets, and then acquires new machinery to replace the old in order to avoid being faced in the end by the fact that his whole factory has been worn out. Such sums are of course still being written off the balance sheets; but the industrialist generally abstains from making the actual purchase, either because he cannot buy the necessary goods or because, in view of the fundamental changes in markets and prices, he wishes to wait and see what methods of production he will be able to use in the future. As private individuals people save money in order to invest it in war loans, but in the economic sense we are saving materials and labour, which would have been used in peace time in order to make good wear and tear, for the requirements of the war. We are living on capital in order to finance the immediate needs of war time economy."¹

This is exactly what is happening in Germany to-day, although there is no war. The process may not yet have gone so far as during the Great War, but the same features are to be observed. The industrialists and the banks are investing their capital or deposits in state bonds to finance armaments production, instead of in the renewal or exten-

¹ F.Z., 13th August, 1936.

sion of industrial equipment. National capital accumulation is used for unproductive expenditure whilst both consumption and investment for truly productive purposes decline.

It is difficult to show the real decline statistically. The general index of production gives an impression of prosperity and of a tremendous growth in productive capacity. Little can be learnt from the indices of production. Formerly the indices of iron, steel and machinery production were a reliable guide to the development of industry, but this is no longer the case. There has been a remarkable rise in the production of the iron and steel and engineering industries under Fascism, and the new output has been sold mainly on the home market. In 1936 crude steel production was 233·1 per cent larger than in 1932, and larger even than in the peak year 1929. Sales of machinery increased by almost 200 per cent. Sales on the home market were nearly double the 1929 figures, and exports 36·9 per cent less than in 1928. This would appear to indicate an increase in Germany's industrial capacity. But a "machine" may be a machine-gun, or a tank, or part of the equipment of a Buna factory producing synthetic rubber at a price three times higher than the world market price for natural rubber.

Take again the growth in the constructional trades. Investment in new buildings in 1936 was 10·8 per cent higher than in 1929. But the new construction consists mainly of barracks, aerodromes, motor roads, etc. These increased by 123·5 per cent, whilst the number of new flats and houses built declined 3 per cent, and the new industrial buildings declined 48·1 per cent.¹

One of the state banks, the Reichskredit-Gesellschaft, which sends half-yearly reports abroad in English and French, wrote as follows in 1937:

"Production of means of production during the first quarter of 1937 was a further 16 per cent above the level of a year ago, and 151 per cent greater than during the crisis year 1932."

Reading this one might be impressed by the achievements of Nazi Germany, and feel that Germany to-day is

¹ According to the *Institut für Konjunkturforschung, Reichskreditgesellschaft Deutschlands Wirtschaftliche Entwicklung*, 1937, p. 16. (f c)

very prosperous. Yet this conclusion is only justified if a machine-gun or a tank is regarded economically in the same light as a steam bakery or a locomotive.

The *Institut für Konjunkturforschung* gives the following figures.

Index of German Production of Capital Goods (1928=100)

1929	1932	1935	1936	June, 1937
103.0	35.4	102.4	116.6	133.9

But what does this Institute mean by "capital goods"? The table gives no indication of what proportion of the total is "means of production" and what proportion is "means of destruction". What use was made of the increased production of iron and steel? We know that iron and steel for private building and for normal industrial purposes is very scarce. According to the state regulations, iron and steel must be delivered first for export, secondly for armaments, and thirdly, for the needs of the Four Year Plan or other vital home needs. There is little left over for anything else. Neither houses nor factories may be built without a permit if the cost of construction exceeds a certain sum.¹

"The scarcity of iron for construction purposes has had the effect of decreasing the number of new buildings started by 8.7 per cent, as compared with last year. The number of permits issued for new buildings declined 18.3 per cent."²

Under the Weimar Republic the state subsidised the building of new houses and flats. To-day there are no funds available for this purpose. The number of new miners' flats in the Ruhr fell from an annual average of 2,700 from 1920 to 1934, to a mere 683 in 1935.³

Whilst there has been a boom in warship construction the merchant fleet has decreased. Between 1932 and 1935

¹ Formerly building of flats accounted for 33-36 per cent of the total building activity. According to I.F.K., the building of flats only accounted for 6 per cent of total building activity in 1937, although there is still a shortage of about 1.5 million flats.

² F.Z., No. 235, 1937.

³ G. Dierig, *Das Seilnetzwerk des Deutschen Industrie in Probleme des Deutschen Wirtschaftslieben*, 1937, p. 239.

the registered tonnage of the merchant fleet declined 11.2 per cent, which is a much greater fall than in other countries. In 1932 Germany's percentage of world tonnage was 6 per cent, in 1935 it was 5.7 per cent.

Investment in "streets and roads" in 1935 was 70.9 per cent greater than in 1928, but investment in railways was 47.5 per cent less; in waterways 27 per cent less; in "other communications;" 45.5 per cent less. The new roads are built for strategic purposes, whilst ordinary roads and streets of no military importance are quite often left unpaved.¹

The depreciation in technical equipment is well illustrated by the development of the German railways. The figures show a remarkable decline. The volume of goods transported by the railways rose by 23.2 per cent. In spite of this, the number of locomotives fell 5.4 per cent, that of passenger cars, 7.4 per cent, and of trucks, 6 per cent.

A secret report from a member of the illegal railway trade-union gives a vivid illustration of the actual situation of the German railways.

"Most of the rolling stock is in need of repair. The condition of the locomotives is much worse than before. The bigger goods yards are congested because there is a lack of shunting engines to clear them. In certain districts the State Railway is compelled to work with oil engines borrowed from private undertakings. The engines of the Reichsbahn stand about in the repair shops because there are no raw materials and they cannot therefore be properly repaired. Formerly the bearings for axles, piston rods, crank pins, coupling pins and bolts were lined with a mixture of lead, tin and antimony and consumed very little oil. But now there is a lack of antimony and tin, and all available stocks of these metals are put at the disposal of the shipyards, because the Third Reich is rearming at sea as quickly as possible. Good bearings are even removed from locomotives and trucks and relined with substitute metal. This substitute is a mixture of brass, copper and lead; it is hard and brittle and 'eats' oil; when pressure is increased it breaks, and if the lubricant used is an inferior one the bearings become hot and seize. There is also a shortage of good lubricating oil. The locomotives whose

¹*Wirtschaft und Statistik*, 17th September, 1936.

bearings have been lined with substitute metal are therefore compelled to reduce speed at curves, and the working speed is reduced

In order to make good the disadvantage of poor lubricating oil and inferior bearing metal the bearings are no longer made air tight, and the result is that the axles, etc., whip and destroy the bearings "

It is obvious that increased goods traffic carried by fewer trucks and locomotives must result in a strain to the material and eventually to a serious deterioration in railway equipment. This must be the more serious since replacements are now difficult to carry out

There has even been a decline in new investments in electrical power stations, although the power is needed for the production of synthetic chemical products. The generation of electrical power rose 6.6 per cent annually from 1929 to 1932, and only 2.9 per cent annually from 1933 to 1935 ¹

Of course, some branches of production are extremely prosperous and are increasing their productive capacity. Such are the new subsidised industries. Production of synthetic textile fibres increased from 7,200 tons in 1934 to 45,000 tons in 1936. The production of natural textile fibres increased from 8,400 tons in 1933 to 47,100 tons in 1936. But the costs of production are higher than in other countries, and in time of war production would be insufficient to meet the demand. According to the *Institut für Konjunkturforschung*, the home production of textile raw materials covers only 17 per cent of total German needs.

As regards consumption goods, only luxuries bought by the upper class have increased. There has been a boom in the champagne trade. The total sales in 1936 came to 14 million bottles as against only 10 million before the war ². The number of driving licenses for private cars rose 419 per cent between 1932 and 1936.

As against this the production of the ordinary necessities of life increased only slightly and there has been practically no new investment in these industries.

¹ *Die Probleme des Deutschen Wirtschaftslifers*, 1937, p. 410

² *Die Volkswirtschaft*, 4th May, 1937

Even the Nazi economists cannot fail to observe with misgiving the official classification of armaments as "means of production" and the decline in real consumption.

"The production of German consumption goods has increased by 16 per cent between 1933 and 1936. The prices for certain classes of goods have during the same period increased—some of them to a very considerable extent (agricultural produce altogether 20 per cent, consumption goods 15.5 per cent) . . . If we take into consideration that there has been an increase in the production of consumption goods amounting to 15 per cent, the increase in the production of production goods has been 100 per cent—an increase only partially financed from genuine savings and taxation—then it is not hard to understand this phenomenon."¹

The Nazi economist Vershofen showed that the increase in purchasing power does not correspond to an increase in the production of consumption goods of 15.5 per cent.

The rise in the value of the output of consumption goods corresponds more or less exactly to their rise in price, so that the volume of production has not varied. Yet official statistics show the income, or purchasing power, of the working-class and of the middle-classes as having increased more than the output of consumption goods. Vershofen is correct in his conclusion that an increase in purchasing power without a corresponding increase in the production of consumption goods means that there is inflation. This explains the rise in prices which is officially admitted, and the steeper rise in real prices which has occurred through the inferior quality of manufactured goods.

Consumption during the first quarter of the year

(Figures from the Statistisches Jahrbuch für das Deutsche Reich).

	1932	1933	1934	1935	1936	1937
Fresh milk (1000 tons)				994	980	992
Sugar (100 tons)				257	271	176
Cigarettes (millions)				8121	8785	5810
Cigars (Millions)				173	175	119
Tobacco (100 Kg.)				1325	1931	1898

(In the case of cigarettes the percentage of inferior brands sold has increased.)

¹ *Die Deutsche Fertigware*, No. 1, 1937.

Consumption of sugar in 1936 was considerably less than in 1930-31. The net increase in housing accommodation in 1935 was 24 per cent less than in 1929.

Consumption of foodstuffs, according to the sales of the retail traders, increased 17.4 per cent in 1936 over the 1932 figure, but if the officially admitted rise in prices is allowed for, the increase is only 9.5 per cent. Even this increase is illusory, since the figures take no account of the deterioration in the quality of foodstuffs sold. Moreover, sales of luxury products increased. In view of all this it is unlikely that there has been any real rise in the consumption of foodstuffs in spite of increased employment.

The increased consumption among the privileged ranks of the population is indicated in the figures of subsidies given for house building. The subsidies have been drastically reduced, but more and more individual houses and fewer blocks of flats have been built with such subsidies as are still given. The new bureaucracy has granted such subsidies to itself and its friends and relations, so that the privileged class might move from flats into houses. The Nazi journal, *Die Soziale Praxis*, reports as follows:

"The policy of subsidies is rejected (by the Nazi State). The share of public bodies and local authorities in new building activity was 11.6 per cent in 1932, but last year reached only 3.3 per cent in boroughs of more than 50,000 inhabitants."¹

The unsatisfied demand for new flats amounted to 152,000 in 1933, 196,000 in 1934 and 159,000 in 1935.² This does not include the demand for rehousing. According to Nazi estimates³, 500,000 families could not afford a flat of their own in 1936.

The obvious dearth of flats and deterioration in housing conditions indicated by the above figures is in striking contrast to the boom conditions in the building trade and the great increase in the production of construction materials for armaments.

During the fourth and fifth years of the Nazi régime house building has been stimulated by two factors: the new

¹ *Die Soziale Praxis*, 28th May, 1937.

² *Jahrbuch der Nationalsozialistischen Wirtschaft*, 1937, p. 121.

³ *Ibid.*

industries and new factories for rearmament made it essential to build new workers' flats. The new factories were usually set up in the countryside instead of in industrial centres. Many workers had to be shifted from one place to another. They had to give up their old homes, which were left empty.

The second factor which accounts for the recovery in house building activity is the "flight into tangible goods" (*Flucht in die Sachwerte*) by industrialists who had accumulated profits which they did not want to hand over to Schacht. This would have been unavoidable if they had kept their money on deposit at the banks or if they had bought state bonds or bills. Investment in industry is also difficult on account of state restrictions. These capitalists do not believe that the armaments boom can continue for very long and fear it will end in catastrophe. Accordingly they wish to invest their money in "real values". They often build houses for themselves and flats to let at a profit. In spite of the scarcity of capital, many new investments are made by private capital, not on account of an expansion of the market, but on account of the anxiety of the capitalists to own "real values" when the currency system breaks down. This building prosperity is, however, handicapped by the scarcity of raw materials. Many textile factories have had to reduce production because of that scarcity. The shrinkage in reserves and the corresponding scarcity of textile raw materials is shown by the remarkable decline in the imports of textile raw materials:

German Imports of Textile Raw Materials
(in 1,000 tons)

	1929	1932	1933	1934	1935	1936 ¹
Wool and other animal hair . . .	165,9	174,6	164,6		194,3	139,2
Cotton . . .	352,2	401,3	337,4		348,7	308,3
Cotton yarns . . .	38,8	9,5	14,7		19,6	16,1
Flax, Hemp . . .	230,9	208,3	222,6		242,4	202,1

German production of artificial silk rose from 30,000 tons in 1933 to 45,000 tons in 1936. This is only about

¹ Estimated.

87 per cent of the quantity of cotton and wool imported in 1929.

The production process in many factories is frequently interrupted by shortage of raw materials. This obviously increases costs of production. In the most important textile centres, the manufacturers in 1937 received only 60 per cent of the 1936 supply of raw materials. Even the manufacturers working for export or for the army, although they are served first, cannot get all the materials they require.

The shipyards can only get steel plates delivered eight months after placing an order. Work is interrupted for weeks, or even months, and the inferior quality of the materials means that the plates have to be rolled fifteen times instead of three, in order to produce the thickness required.

Essential parts of the rearmament programme have not fulfilled the plan on account of shortage of raw materials, and in many cases materials of inferior quality have had to be used to make important weapons of war.

Even the factories producing motors have had to use substitute materials which reduce horse-power. Even ammunition has sometimes to be made from substitutes

"Big motor works therefore refuse to give an eighteen months guarantee, as was customary previously; they assume that the motor will fail before that time is up. The number of revolutions of a motor fitted with substitute bearings is considerably diminished—often by as much as 50 per cent. In this way the preparedness for war of German industry is diminished.

"The lack of raw materials compels the Third Reich even to impair its reserves of munitions. For the last few weeks there have not been enough copper driving bands for the shells. The war reserves are not supposed to be drawn on. Hence most of the factories now use an aluminium mixture for driving bands. This mixture however is so hard that the shells fitted with these substitute driving bands destroy the rifling of the guns with the result—as I was told by artillery men—that the gun ceases to hold a true range after the fourth shot."¹

Workers in the factories producing tanks and lorries complain of the poor quality of the steel, which is so porous and brittle that the tanks and lorries do not last long. If

¹ Report of an illegal trade unionist, *Illgeheuer*, 6, 1937

this is the situation to-day, one can imagine what it would be in war-time, with all foreign supplies cut off.

German rearmament has caused an international arms race in which Germany is at a great disadvantage, on account of her weaker financial resources.

But the German militarists cannot stop the arms race and give up the aim of dominating Europe. They cannot see the vast amount of capital invested in the war industries rendered valueless and the iron and steel trusts and banks ruined. The arms race will compel German militarism to raise more funds for the production of more armaments. Will this be possible?

Schacht has stated that the government control of the capital market and the control of foreign trade are only temporary measures. But there is to be no economising on armaments, and the arms race will compel further expenditure. A halt to rearmament would cause a general economic breakdown. A switch-over to production of goods for sale on the world market could not be effected without a tremendous devaluation of capital. There is in any case no prospect of a market abroad to compensate for the loss of the present huge state orders. Many works would have to close down.

The state cannot, however, go on indefinitely financing armament expenditure out of loans without inflation, and a collapse of the mark at home, unless the capitalists making profits buy the state bonds and bills. The Reichsbank will have to compel all banks, insurance companies, trusts and enterprises to lend all their resources to the state. This must in turn lead to a further reduction in investment in industries unconnected with armaments production. There can be no technical improvements in such industries as produce ordinary manufactures.

If it were to appear certain that Germany was losing ground in the armaments race, the militarists might provoke hostilities at once. If they could see a chance of winning a quick and decisive victory before the greater economic resources of the enemy states could be mobilised, and before the morale of the German people broke down, war would be embarked on at once.

The fundamental contradiction which confronts the rulers of Germany to-day is that the more arms are produced and the more completely the country is prepared for war, the worse becomes the condition of the mass of the people, and the more acute become social antagonisms.

In the past technical skill and inventiveness enabled German heavy industry to compete successfully against its rivals on the world market. German skilled workers could raise their standards of life because German industrialists were technically superior to their foreign competitors. German capitalism is now forced to abandon these advantages. It cannot produce armaments on the present scale and also keep in the vanguard of technical progress, as it did in the past. German machinery and German chemical products must lose their world-wide reputation for excellence.

Even if those branches of German industry whose products compete on the world market are to some extent able to improve their technique and replace their depreciated machinery, this is not enough for the maintenance of an international monopoly. The whole trend of world development is narrowing the foreign market.

Schacht was opposed to state control of production in peace-time, but the scarcity of raw materials and foreign exchange compelled him to create a huge bureaucratic apparatus for the distribution of raw materials, for the control of imports and for the subsidising of exports. This does not mean that Germany to-day has a planned economy, although much planning is done by the government. Although in theory raw material needs are calculated, and raw material supplies are distributed, according to a plan which is concerned only with the national interest, in practice much depends upon the relations of each individual industrialist or company with the state officials. What can such a system be called? The *Frankfurter Zeitung* calls it "state interventionism".

"The growth of direct and indirect State interference cannot in itself be taken as a fundamental change in German economic policy. Yet it is clear that the foreign exchange situation has led to an increase in interference and in State control. . . .

Out of import restrictions there arose the system of State administration of raw materials with its system of purchase and processing permits, and prohibitions against investment and use of raw materials; and out of the State control of raw materials there arose in turn the control of production, investment and consumption and the exact regimentation of the volume of labour to be employed for given purposes. The development of the twenty-eight control offices is particularly significant, for this machinery which at the present is responsible for the direction of every economic process, is a definite emergency measure. This also explains its complicated nature and its obscurities. It would be different if a planned economy of this kind had been deliberately aimed at. The freedom of business is restricted to such a degree that a paralysis of the economic forces is to be feared in the long run."¹

The industrialists who complain of the shortage of raw materials, the workers who complain of low wages, compulsion and rising prices, the middle-classes whose conditions are now worse than before, are all told that it is in the interests of the community, of National Socialism. But the word socialism, in its original meaning, implies a planned economy, and a national plan of production does not exist. The state interferes with the capital market and with the distribution of raw materials; it controls prices² with the object of assuring the necessary funds for the rearmament programme, but with the result also of safeguarding the profits of the monopolies. The principle of private enterprise is maintained.

Manufacturers who are not allowed to increase price or obtain new capital to cover their increased costs of production may go bankrupt, but not the trusts, which can rely on banking credits and state subsidies.

The intervention of the state has a far-reaching effect upon capitalist economy. The development of the productive forces and all economic activity is canalised for the purposes of a war economy. All branches of production which have no connection with military needs decline, some may die out.

¹ F.Z., 11th July, 1937.

² According to the *Statistisches Reichsamt*, the prices of three-quarters of the production of the country are controlled by the cartels or by the state. No. 22, 1936.

"In the past few years there have been many reasons for drawing on accumulated stocks, and similarly there were many reasons for not investing available long-term capital in the same undertaking or in the same branch of industry. A large part of the consumption goods industries and of the distributive trades dependent on them suffers from an insufficient market as well as from difficulties with regard to raw materials. Some of the capital invested years or decades ago is withdrawn from the original investment and used for investments which to some extent stand outside the normal cycle. In some positions there is no way back."¹

The cartels and syndicates, which even under the Weimar Republic monopolised German raw materials, used to maintain a huge surplus productive capacity at the expense of the community. The power of these monopolists had already produced a tendency to a slowing down in industrial expansion. To-day the monopolists are far more powerful, and the state, by subsidies and compulsion, forces investment in armaments production. The system of "state interventionism" or "National Socialism" compels the whole capitalist class to serve the needs of militarism, whilst all competition not in the interests of militarism is ruthlessly suppressed.

¹ *Wirtschaftsdienst*, 29th May, 1934

PART III

THE HISTORICAL SIGNIFICANCE OF NATIONAL
SOCIALISM

Chapter 9

NATIONAL AND INTERNATIONAL MONOPOLIES. CONTRAST BETWEEN BRITISH AND GERMAN FINANCE CAPITAL

Is NATIONAL SOCIALISM THE BEGINNING OF A NEW SOCIETY or the final stage of a society in decay? The historical significance of National Socialism cannot be found in programmes and party slogans nor even through an examination of the general situation of German capitalism. It is to be found in an understanding of the present position of capitalism all over the world.

The causes of the change-over from bourgeois democracy to Fascism, and the clue to an understanding of National Socialism, is only to be found in knowledge of the power and importance of finance capital.

As capitalist development progressed, banking and industrial capital fused more and more into finance capital. Monopolies arose with power over all the producers and consumers of certain essential goods. The banking and industrial magnates who controlled these monopolies assumed a dominant position within the capitalist class long before Fascism or National Socialism were ever heard of.

To-day finance capital has destroyed the former independence of the small industrial capitalist. Powerful trusts have come into existence which control hundreds of enterprises, and even whole branches of production, in particular the essential raw and semi-manufactured materials which all other producers require. Bankers naturally prefer to invest the funds they control wherever they can earn a high, but also secure, profit. The industrial monopolies offered new spheres of investment to banking capital. Hence the close connection and mutual support

between the big industrialists and the banks, which is what is meant by finance capital.

This development was not apparent in the earlier stages of imperialism, when the industrially undeveloped regions of the world were being conquered and large parts of Asia, America and Africa were being turned into colonial areas. The international division of labour and the spread of industrialism made it profitable for finance capital to invest its huge profits in the colonies for the exploitation of those raw material resources of which the industrialists of the whole world were in need. In this first stage, England and France and their satellites monopolised the colonial field and added further large portions of the world to their empires.

In the second stage of modern imperialism other countries entered upon the scene, but the most profitable fields for investment and the most important raw material resources had already been monopolised by the old Imperialist powers. Finance capital can only maintain monopolies where it has political power, and in the case of the "Have-Not" countries, the only place where they have political power is at home. Thus in these countries finance capital was from the outset forced to rely on investments within the national boundaries. This explains the difference between British and German finance capital. In Britain the industrialists maintained their independence of the banks and of finance capital, although there was already in existence a financial aristocracy deriving its profits from foreign investments and colonial monopolies. But in the present stage of capitalist decline, which is the last stage of imperialism, finance capital can no longer rest content with foreign investments or international monopolies, even in Britain. It has had to begin investing in the home industries, and is endeavouring to establish internal monopolies. This brings about fundamental changes within the capitalist class.

Formerly the capitalist class was composed of numerous independent industrialists and traders and shareholders in joint-stock companies. These capitalists needed representatives to stand for the interests of the whole capitalist

class, or for those of large groups within it, and not merely for the interests of a particular enterprise. But the bankers and trust magnates holding key positions in the national economy, and dependent for their profits on investment in many branches of production, or even on the control of the entire economic life of capitalist society, consider their own interests as identical with national interests, and have the power to impose their will upon the nation.

In Britain before the war the City was concerned mainly with foreign investment, and such investment formed the basis for the economic and political power of the financial oligarchy, but in Germany the financial oligarchy could be based only upon monopolies in the home market. German finance capital was, nevertheless, exporting capital and beginning to compete with British colonial and foreign monopolies. The desire for new profitable spheres of investment was the driving force of German imperialist expansion. However, it was characteristic of German imperialism, as distinct from British imperialism, that those concerned in foreign investment had already established monopolies on the home market.

Political parties enrolled the various capitalist groups to represent their interests in Parliament. Although even to-day the particular interests of different groups—manufacturers, producers of raw materials, agrarians, merchants—are still represented, none of these groups is now independent of the financial oligarchy in control of the key positions in the national economy.

In Germany under the Weimar Republic the big banks, the Chemical Trust, and the iron and steel magnates, had their representatives in each of the principal bourgeois parties. This was true of the *Deutschnationale Volkspartei*, although it represented mainly the interests of the agrarians and heavy industrialists. It was true of the *Deutsche Volkspartei*, although it represented in the main the particular interests of the manufacturers. It was true of the *Zentrums-Partei*, representing the Catholic agrarians and industrialists and the Catholic Church. It was true of the *Democratic Party*, representing merchants and manufacturers.

Under such conditions any government is closely connected with the trust magnates and bankers, and the interests of the latter tend to become identified with the interests of the whole capitalist class. Those capitalists who oppose the "dictatorship of the financial aristocracy" and are economically weak, appear to be fighting only for their own individual interests, since finance capital is connected not with one branch of industry but with many, indeed with the whole national economy. It does not represent a concrete form of capital ownership in industry or agriculture, but a claim to interest or profit which has been capitalised.

The mechanical way in which so many writers calling themselves Marxists have repeated the statements made by Marx and Lenin, has prevented their being able to understand the latest development of imperialism. Marx saw the trend of capitalist development and exposed the fundamental contradictions of capitalist society. Lenin made an analysis of imperialism which proved that a peaceful transition to some kind of "ultra imperialism" or world-state was impossible. If the world revolution did not occur, there would be a new armaments race and an intensification of imperialist and class antagonisms. Post-war imperialism shows certain new developments leading to Fascism or National Socialism, and these must be analysed.

The Fascist countries, as "Have-Not" imperialists, are leading a revolt against the most important world monopolies and against the control of the world market by the "Have" imperialisms. They seek for a sphere of expansion for their own imperialisms wherever they can find one, and the Soviet Union may be their first objective, though this need not necessarily be so.

What social changes have occurred within the "Have-Not" imperialist countries, and what are the consequences for world imperialism? Finance capital in these countries never had large foreign investments and colonies, because *their capitalist development had started too late*. How then can the "Have-Not" powers compete against the far wealthier and more powerful old-established imperialist powers with any chance of success? Many pacifist writers

thought it was clearly impossible for them to do so, and they believed the strongest power would always be able to dictate peace. This is the idea which inspires all those who believe in collective security.

It may be asked what compels the Fascists to continue to struggle for military supremacy and expansion, in spite of the enormous sacrifices this entails; sacrifices so heavy as to endanger the whole system of National Socialism without its ever having a fair chance to show what it can do. Fascist policy cannot be explained by the madness of a Hitler or a Mussolini. The answer is only to be found in an understanding of the development of capitalism everywhere, and in particular of finance capital.

Before Lenin wrote his analysis of imperialism other important works on the subject had been published. The most important ones were J. A. Hobson's *Evolution of Modern Capitalism* and R. Hilferding's *Das Finanzkapital*. Each of these economists relies mainly upon an analysis of the developments in his own country—Hobson deals with British and Hilferding with German imperialism. Both generalise the conclusions which they draw from the analysis of imperialism in their own particular country. Hobson envisaged the possibility of British investments dominating the whole world and deciding the future of world economy. Hilferding laid stress upon the concentration and centralisation of capital and the predominance of the type of finance capital which had developed in Germany. He thought that the end would be either a proletarian revolution or the rule of a single "General Trust".

Lenin drew his conclusions from a comparative study of developments in all the imperialist countries. He agreed with Hilferding's main thesis: the close fusion of banking and industrial capital. But when Lenin wrote, industrial capital in Britain was still largely independent of banking capital. This was not merely a national peculiarity, but the expression of the tremendous imperialist expansion of Britain. One can distinguish two stages in the development of finance capital; the stage when it is based on foreign and colonial investments, and the period of the "general

THE HISTORICAL SIGNIFICANCE OF NATIONAL SOCIALISM

In 1914 German foreign investments amounted to about 28,000 million marks or £1,400 million in comparison with £4,000 million British foreign investments.

“In pre-war times Germany completely satisfied her demand for capital; and more than that, she made large investments in Russia, Austria, Hungary, Turkey, South-America, Scandinavia, the Ukraine and China. The amount of foreign investments and shares on the Berlin stock exchange did not reach the level of Paris, but Berlin exceeded Paris in the total amount of foreign shares and debentures sold. . . . To a menacing extent the Berlin banks financed exports abroad by participation in long-term investments abroad. Two big institutions, the Deutsche Bank—the Deutsch-Ueberseeische Elektro-Gesellschaft and the Anatolian and Bagdad Railway Company, offered the most striking examples of this tendency. They were to provide the German exporting, locomotive, wagon and railway building industries with a permanent field of business.”¹

Germany had her own colonial empire, although a small one. She had foreign investments which brought in profits of $1\frac{1}{2}$ to $2\frac{1}{2}$ milliard marks annually. She drew huge super-profits from the whole world by reason of her chemical monopolies (dye-stuffs and certain medicines), her potash monopoly, and her superiority in the manufacture of some kinds of machinery and of electro-technical equipment.

The close association of the banks with industry had accelerated the accumulation of capital in Germany. She had taken first place in the production of complicated machines and electro-technical equipment. These branches of production had achieved a monopolistic position on the world market. Foreign buyers of German machinery had to pay prices which secured super-profits to German capital.

It was the banks in Germany which were the main exporters of capital, but they were at the same time investors in heavy industry and in other branches of production where the centralisation of capital was very marked. This fusion of banking and industrial capital did not with a few exceptions (e.g. the railway companies) exist in Britain. After the war the connection between banking capital and

¹ F. Somary, *Bankpolitik*, 1931 pp. 287-8.

the monopolies on the home market became closer than before.

Amongst the imperialist antagonisms in pre-war times, the rivalry between British and German imperialism was decisive. German imperialism tried to establish its absolute hegemony in Continental Europe and to rival British sea-power at the same time. The Great War was the beginning of the struggle between the "Haves" and the "Have-nots". The imperialist expansion drive was based upon the ever-increasing monopoly position and political power of finance capital.

"The fact that Germany was able to rival the Anglo-Saxon powers and finally become so strong that only an alliance between five great powers could defeat her, was due to a large extent to the close alliance of the German banks and German industry."¹

The main results of the Great War were the birth of the Soviet Union and the repartition of the colonial world. Germany, who might be described as a "Have-Little" power before the war, lost all her colonial possessions and became a "Have-Not" amongst the imperialist powers. But even the victorious imperialisms were no longer able to escape from the consequences of capitalist decline. In the true sense of the term, a "general crisis of capitalism" has begun. But the decline is unequal, and capitalist society has decayed much further in Germany than in other important industrial countries.

A further result of the war has been to encourage and *make possible the industrialisation of new countries*. This trend has continued since, though with less force than during the war. A number of countries which before the war were semi-colonial areas have established industries of their own and erected barriers against the imperialist powers. Hence the war led not only to a redivision of colonies in favour of the victorious powers, but also to a shrinkage in the size of the colonial world.

After the war Germany not only lost all her colonies and foreign investments but had also accumulated a large

¹W. Hagemann, *Das Verhalten der Deutschen Grossbanken zur Industrie*, 1931.

foreign debt. Exports of capital from Germany became negligible. There was a flight of capital from Germany, but this was caused not by expanding production but by the instability of the social system. At the same time the power of German monopolist concerns and banks inside the country increased.

Germany also lost her pre-war international monopolies. The dyestuffs monopoly had been destroyed by foreign production during the war; the potash monopoly was broken by the separation from Germany of the potash areas in Alsace Lorraine and by the exploitation of potash deposits in other countries. As regards her pre-eminent position in the production of machinery, it could only be partially preserved, and is likely to disappear altogether, especially if German economy proceeds along its present line of development. Germany's electro-technical equipment is no longer of outstanding quality.

During the period of "rationalisation" foreign loans enabled the German banks to finance the modernisation of German factories, so that Germany came once again to possess the best equipped industries in Europe. This, combined with the talent of German engineers and the technical skill of German labour, should have won new international monopolies for German capitalism. It was indeed expected by those who invested huge sums borrowed from abroad in plants for the manufacture of complicated machinery and electro-technical equipment that super-profits would be obtained on the foreign market, which would enable them both to pay interest to their foreign creditors and to keep a large profit for themselves.

The world economic crisis destroyed these hopes. Foreign countries put up barriers against imports. Purchasing power was everywhere reduced. There could be no hope of re-establishing Germany's pre-war international monopolies. Only national monopolies remained and extended their power. Huge investments made in Germany by the trusts and large firms in order to reconquer the world market became useless. Most new works and machines remained idle. But the investors who belonged to the group of trust

magnates and bankers did not give up the claim for a return on their capital which had become unproductive. They tried to raise more profits derived from the internal monopolies in order to recompense themselves for their huge losses.

The national consumer who is dependent on these monopolies has accordingly to pay double or triple tribute because the foreign world refuses to pay super-profits to German finance capital. The establishment of such national monopolies means that the economic weapons of imperialism, first tried out against foreign and colonial countries, are now used against the people of the "Fatherland". Such finance capital as this adopts different forms of political domination from the finance capital which is based on foreign investments and the exploitation of colonies. National, or internal, monopolies likewise have a different effect on the social and economic structure of a country from international or colonial monopolies. The one increases its profits at the expense of its own countrymen, the other at the expense of foreigners and colonial peoples.

Whilst this distinction is quite clear as between German and British imperialism, the position of American imperialism is more complicated. The territory of the U.S.A. is so vast, it is so rich in raw material resources and it has such vast possibilities of expansion in other parts of America that the effect of the early development of powerful national monopolies was not felt to the same extent as in Germany.

There are some so-called international monopolies which are merely cartels between national monopolies. These cartels make arrangements between the national monopolies of various countries not to encroach upon each other's spheres. The International Steel Cartel is an example of this type. This kind of international cartel is not, however, an international monopoly in the sense used here. At the beginning of the modern era there were international monopolies which enabled merchant capital to draw huge profits from the foreign world, sometimes through actual robbery. There was, for instance, the monopoly

trade with the Far East, first by Portugal, then by Spain, and then by Holland and Britain.

When the industrialisation of Europe and other parts of the world destroyed the industrial monopoly of Britain, her colonial monopolies and her huge foreign investments were extended. But these colonial and international monopolies did not lead to the establishment of an international trust controlling world economy. Such a powerful development of world economy was made impossible by the unequal development of capitalism, the significance of which was stressed by Lenin. To-day the unequal development of capitalism is shown in the existence of powerful national monopolies, in particular in Germany. Germany's answer to those countries which can rely upon the profits derived from colonies and foreign investment was the creation of national monopolies more powerful than those of any other country. These serve the "Have-Not" imperialisms as their resources for the financing of a new struggle for world power and for a repartition of the world.

International or colonial monopolies increase parasitic incomes and the consumption or savings of the capitalist class, at the cost of foreign countries or colonies which have to pay tribute in the form of interest on loans and monopoly prices. National monopolies, on the other hand, compel the various classes—the manufacturers and consumers—of the home country to pay tribute. The rate of profit of the "independent" capitalist is decreased and therefore consumption declines, and the industrial market is narrowed. Competition between independent capitalists becomes fiercer and the pressure to reduce wages is intensified. Such conditions preclude the existence of a labour aristocracy, while the middle classes are poor and unable to save. In a word, the social consequences of national monopolies are the reverse of those of international and colonial monopolies.

The predominance of colonial monopolies or huge incomes from abroad enables imperialism to "divide" the population; the majority of the middle-classes and a part of the working-class is influenced by the ideology of the rentier. They share in the profits derived from the exploitation

of foreign peoples, and therefore defend imperialism. The predominance of national or internal monopolies has the reverse effect: the overwhelming majority of the population becomes united. The working-class is not split by the existence of a labour aristocracy. The majority of the middle-classes are no longer bound to the system by considerable incomes from investment or comfortable salaries; they, too, suffer from insecurity of existence, and become proletarianised. As Marx foresaw, the overwhelming majority of the nation become economically one—all are proletarians. The capitalist class shrinks and comes under the control of a few powerful financial magnates who draw huge profits from the most important internal monopolies. This leads to a greater centralisation of capital and income.

After having created powerful internal monopolies, the financial aristocracy is able to accelerate its accumulation of capital. But the narrowness of the internal market makes the financing of new enterprises or production for the home market an extremely risky and uncomfortable venture. Additional production for export is not profitable on account of the glut on the world market resulting from the general crisis of capitalism, and on account of the control of most other countries by the imperialist competitors.

and the *Stahlverein*. Before the Fascist régime was established, the former was financially far stronger, and its capital consisted mainly of share capital and reserves, almost without banking debts, so that it was largely independent of banking capital. The great steel trust, on the contrary, was almost bankrupt and heavily indebted to the banks. The I. G. F. supported the last governments which tried to preserve parliamentary democracy and opposed a Fascist dictatorship. The Minister for Economic Affairs in the 1931-32 Brüning Government was a director of the I. G. F. Yet in spite of its financial weakness, the influence of the *Stahlverein* was much greater than that of the I. G. F. in deciding the fate of Germany. Under the Third Reich this gigantic steel trust, in close association with the big banks and Schacht, has become the most influential capitalist interest.

The difference in policy and influence as between these two great trusts was mainly due to the fact that the one organised and controlled the major national monopolies and drew its profits from coal, iron and steel; while the other derived its huge income from an international quasi-monopoly which it could only maintain by continual technical progress. It also had considerable foreign investments. The greater political influence of the steel trust is due to its close connection with banking capital and with the army general staff, which is naturally primarily concerned with maintaining the iron, steel and coal basis for a huge armament industry.

The big trusts, on account of their huge profits, are frequently able to extend or improve their plant out of their own financial resources. These trust-magnates centralise, not merely the control of share capital and debentures, but also their ownership. They accordingly own capital which is never distributed to small capitalists or debenture holders, and which can therefore be reinvested. The self-financing of the big trusts is a reflection of the increased centralisation of the ownership of capital.

The bankers upon whom Fascist agitators used to place the responsibility for the misery of the people have become the trustees of National Socialism, as against the small

manufacturers and traders. The state bureaucracy does not control the Reichsbank. Although a new banking law was enacted which on the face of it secured state control of the Reichsbank, its actual effect has been precisely the reverse. The Reichsbank has become even more independent than before, while Hitler has become the legal intermediary between it and the bureaucracy in case of disagreements.

"The new Banking Law has definitely placed the Directorate of the Reichsbank under the supreme state authority. This means in practice that the Treasury has no power over the bank of issue. If it should attempt to interfere, the issuing bank can appeal to the Leader of the state."¹

Hitler's personal position has been greatly strengthened and he has become more powerful, but the banking and industrial oligarchy might well say to-day what the Prussian Junkers said of their king in times past:

"Our king is absolute so long as he carries out our will."

The banks have been put in a position to earn large profits while being re-transformed into private enterprises.² Under the Fascist régime banking has once more been made profitable and respectable.

The banks are careful, in making their investments, not to finance any new competitor who might destroy the monopoly position of the big industrialists associated with them.

After the war the banks had endeavoured to find new spheres of investment which would widen the market for those industries which were controlled by the trusts. In other words, they had sought new fields for German finance capital to conquer.

"Banks are anxious to obtain large foreign orders. For a considerable time the Disconto-Gesellschaft negotiated with Rumania about granting a loan. A part of this loan will be made in the form of goods, which would certainly be delivered by the

¹ *Die Bank*, October, 1937.

² Dividends paid by the Commerz-Bank, Deutscher Bank, and Dresdner Bank rose from nil in 1933-'34 to 4% in 1935-'36.

THE HISTORICAL SIGNIFICANCE OF NATIONAL SOCIALISM

enterprises which are closely connected with the Disconto-Gesellschaft. . . . In 1926 the Deutsche Bank obtained a forty-year concession for wireless telegraphy in Turkey. The concession will be exploited by industrial enterprises which are closely connected with the Deutsche Bank. The further construction of the Anatolian Railway—a project involving about 60 million marks—will be financed by the Deutsche Orientbank (Dresdner Bank, Dantbank, etc.). The work will be executed by the J. Berger Tiefbau "A.G."¹

Being vitally dependent on the fate of the industries controlled by the monopolists, the banks sponsored the drive for an expansion of German territory, which would automatically have extended the home market and increased the profits of finance capital. Territorial expansion becomes more and more essential to finance capital as the national markets of each country are similarly monopolised all over the world.

Most German economists considered that the influence of banking capital in post-war Germany declined, and that the industrialists became independent of the banks after the war. F. Somary, W. Hagemann, and K. A. Fischer all come to the same conclusion: that the German industrialists had won a victory over the banks.²

The facts appeared to refute Lenin's contention that the rôle of the banks in the imperialist stage of capitalism would increase and that they would control industrial capital. Somary as a bank director may have expert knowledge of banking, but he completely misunderstands the nature of industrial and financial capital. It is true that the German banks were weakened by the war and the inflation, and finally by the world economic crisis. It is true that they were almost bankrupt when Hitler came to power, and could not exist without huge state subsidies and guarantees. It is also true that the statistics of stock exchange values show that both the share capital and deposits of the banks have shrunk in comparison with pre-war times and that

¹ W. Hagemann, *Das Verhältnis der Deutschen Grossbanken zur Industrie*, 1931, p. 169.

² F. Somary, *Bankpolitik*, 1931, p. 318.

W. Hagemann, *Das Verhältnis der Deutschen Grossbanken zur Industrie*, 1931, p. 18.

K. A. Fischer, *Banken und Industrie*, p. 414.

"industrial capital" has increased. This is because a few trusts were able to mobilise more capital and have increased their share capital which is now greater than that of the banks.¹

The truth is, however, that the great industrial trusts, like the Stahlverein and the I. G. F., although they control vast amounts of industrial capital, do not represent industrial capital according to the usual meaning of that term. These trusts own huge blocks of shares which give them the control of many branches of production; but the directors are far more concerned with the profitable investment of their capital, with the buying and selling of shares, and control of the market and of prices, than they are with actual production.¹ They are financiers first and foremost, and are indeed the most influential members of the financial aristocracy. There is no antagonism between them and the bankers; they are closely associated through mutual interest. But the investments of both trust and banking magnates are in opposition to those of the non-monopolist manufacturers and traders. The latter, although theoretically independent, are no longer really so, since they are unable to hold out against those who control the raw material supplies and credits they must obtain. They are more dependent upon the banks than before, and these same banks are tied up with the industrial trusts. Even Hagemann is forced to admit that the "independent" industrialists depend more on the banks now than in pre-war times.

The relative increase in the power of the trusts as compared with that of the banks marks not the growing strength of

¹ T. Veblen, *Absentee Ownership and Business Enterprise in recent times* - "A corporation which does business in industry will employ technical experts to manage the work and oversee the process . . . but such a corporation is not itself an organisation of the technical personnel . . . Its end and aim is not productive work, but profitable business . . . It has only an absentee beneficiary's interest in the work to be done" (p. 83) "The corporation is a . . . concern created by a

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magnates (or their families) makes it possible to re-invest a larger percentage of the profits "earned" by the ownership of fictitious capital in armament industries. This is why the finance magnates can rely absolutely upon the support of the army leaders.

It is wrong to assume that Fascism relies only upon the "most reactionary wing" of the financial aristocracy or of the capitalist class. Many personal changes have occurred in the composition of the financial aristocracy under Fascism, but such changes do not depend upon the ups and downs of a more or less reactionary wing. The financial aristocracy as a whole has an interest in the monopolies which have created the gigantic state bureaucracy. The monopolies guarantee fixed incomes to the heads of the trusts and the banks, and these men themselves frequently become state officials.

"The bureaucratisation of the banks, which began at book-keepers and cashiers, did not stop until the directors had also been involved. It is an established fact that new personalities fit for leadership are almost entirely lacking. . . . Thus the banks remained without real heads, and it was even more unusual for a real head to come from the ranks of the bankers themselves."¹

Bank directors accustomed to routine banking business, which has been greatly simplified by the existence of monopolies and by the state administration, would not be able to deal efficiently with sudden changes in a time of crisis or of war. Their methods are too bureaucratic for the making of rapid decisions. They are not the kind of men who can collaborate easily with the military leaders, and are indeed frequently on bad terms with the latter. They are therefore being replaced by men who represent the interests of the financial aristocracy more militantly and actively, and who can collaborate with the army leaders.

The reforms in company law have been made in order to ensure "independent" authority and initiative on the part of the managing directors in the interests of finance capital.

"The chairman of a joint stock company is the organ of business leadership. . . . Up to now the chairman was subject

¹R. W. Goldschmidt, *Das Deutsche Grossbank Kapital*, 1928, p. 131.

to far-reaching control by the *Aufsichtsrat*.¹ This has been changed. The *Aufsichtsrat* now only has the right to appoint and recall the chairman. Under the new laws the management of the company becomes the sole responsibility of the managing director. He is now therefore independent of the chairman of the *Aufsichtsrat*, and is not subject to the latter's instructions."²

The law accordingly also increases the powers of the big capitalists at the expense of the small shareholders.

Modern imperialist powers have two methods of ruling: one for the people of the metropolis, the other for the colonial peoples. But a distinction has also to be made between the methods of ruling at home employed in those countries which have a colonial empire and in those which have none, but in which monopolies on the home market have given political predominance to finance capital.

In colonial territories imperialist domination may be direct or indirect. The indirect method is preferable from the imperialist point of view, because it is cheaper. In such cases the responsibility and expense of maintaining internal order and the security of investments is left to native rulers, whether the latter be chiefs, princes, or an elected government. This kind of indirect imperialist domination is only possible if a fairly large section of the native population participates in the profits of exploitation, and is therefore interested in the maintenance of foreign imperialist rule. In such cases the native rulers represent a parasitic class of the native population. When no section of the native population benefits from foreign domination, the whole country will be united in antagonism to the foreign rulers. In such cases a larger and far more expensive machinery of government and coercion has to be set up by the imperialist power, to establish the order and security essential to capitalist investment when there is no assistance or support from native rulers.

A parallel can be drawn between the difference in the direct and indirect systems of government in colonies and the system of government adopted at home. The larger

¹ A controlling body elected by the shareholders, which has no counterpart in British joint-stock companies, but whose function is similar to that of the Board of Directors.

² *Der Arbeiter*, July, 1937.

the parasitic rentier class and the labour aristocracy sharing in the profits of colonial exploitation and foreign investment, the more democratic rights and liberties can safely be granted to the whole population without any fear of these rights being used to overthrow the capitalist system.

The fewer the members of these intermediate classes, the less chance there is of parliamentary government and other democratic rights being maintained. When the rentier middle-class and the labour aristocracy disappear, and finance capital has to rely for all its profits on internal monopolies and investments, the death-knell of democracy is sounded. This is what has happened in Germany.

It is a question of who bears the main burden and who pays the profits of finance capital—the colonial peoples or the population of the “Motherland”; the whole of the middle and working classes, or merely the majority.

“Even in that epoch, marked approximately by the years 1872 and 1914, ‘peaceful’ capitalism created conditions of life which were very far from being really peaceful, both in the military and in a general class sense. For nine-tenths of the population of the advanced countries, for hundreds of millions of peoples in the colonies and in the backward countries, this epoch was not one of ‘peace’ but of oppression, tortures, horrors that seemed the more terrifying since they appeared to be without end.”¹

The “nine-tenths of the population of the advanced countries” were not equally divided. In some “advanced countries” which relied on huge colonial and international monopolies a large part or even the majority of the population did not experience “oppression, tortures, horrors” which would have made them hostile to the régime. On the other hand, in those industrialised or “advanced countries” where finance capital did not rely on huge foreign investments and where the old feudal power had never been destroyed by a bourgeois revolution, and where the remnants of feudalism had strengthened the development of a financial aristocracy relying on internal monopolies and a powerful state-machine, the overwhelming

¹ Introduction of Lenin to Bukharin's *Imperialism and World Economy*, p. 10.

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majority of the population really felt that they were oppressed.

A country without a colonial empire, and under the dominance of finance capital, cannot "divide the population." Only the dominant capitalist groups and the state bureaucracy can be assured of security and wealth; the mass of the population has neither property nor security, and must live at a very low standard if the profits of finance capital are to be maintained.

Chapter 10

THE DECAY OF DEMOCRACY

THE ECONOMIC PREDOMINANCE OF A FINANCIAL ARISTOCRACY is not necessarily incompatible with the existence of democratic institutions. On the contrary, Parliamentary Government was established precisely in those imperialist countries where financial monopolies were most powerful.

Parliamentary democracy is compatible with the economic dictatorship of big business, so long as there is a large class of small rentiers, a middle-class with comfortable salaries and secure positions, and a labour aristocracy influenced by petty-bourgeois ideology. The middle-classes and a large section of the working class will in that case be reconciled to the capitalist system, and their representatives in Parliament will not seriously oppose the policy of the dominant capitalist groups.

“Unlike the small business man, the professional and the artisan, the rentier is the potential adherent of either Fascism or Communism only in most unusual circumstances. For he is essentially a lever for the *status quo*, and his interests are those of the maintenance of property rights, especially the value of money. The rentier group before the world war exerted a greater influence than its mere numbers would imply, for the rentier status constituted the goal of so large a section of the population.”¹

But democratic rights and liberties will only be retained so long as the people as a whole believe in the existing social order and are not intent on its destruction or upon reforms which would destroy the wealth and power of the financial oligarchy.

More than one hundred years after the victory of the bourgeois revolution in England, the Chartists struggled in vain for the right to send their representatives to Parlia-

¹ *Encyclopaedia of Social Sciences*, “The Rentier.”

ment and for complete freedom in the formation of trade-unions. Fifty years after the French revolution the working-class of Paris tried to establish the rule of the people. By the time a "democratic" parliamentary régime was established the economic liberalism, which was the material basis, for the democratic demands of the capitalist class, had already disappeared. A new type of capitalist and a new middle class had come into existence. The rentier, i.e. the capitalist who is neither a manufacturer nor a farmer nor a merchant, but merely an owner of shares, debentures, and funds in the bank. He may have a huge income from dividends and interest, but he takes no active part in production or commerce. This type of capitalist gained a decisive influence in capitalist society. His existence made possible the grant of democratic rights and liberties without the danger of their being used for the destruction of the capitalist system. A large section of the population has the same ideology as the rentier, because having obtained security of existence it is interested in the preservation of the existing run of society. When democratic rights and liberties were given to the whole English people, the latter had ceased to be influenced by the spirit of revolutionary Chartism and the influence of the rentier element had become paramount.

The existence of a considerable class of rentiers, or at least of a large number of people with incomes derived from dividends and interest, is one of the essential requirements for the smooth functioning of the parliamentary system of government. There must be support for the existing social system by those who share the ideas of the rentier elements, who live without fear for their daily bread, and have the satisfied feeling which is typical of the petty-bourgeois. The rentier is usually conservative in outlook and opposed to any revolutionary social change which would endanger the security of his existence. The rentier class and the rentier outlook had developed further in England than in any other industrial country. Even the upper ranks of the working-class were influenced by this outlook. Democratic rights and liberties had been given to a people who had become less and less politically minded

and were disinclined to make use of their rights for a struggle against the existing social system.

In Germany there had been some development of a rentier class but to nothing like the same extent as in Britain or France. Germany had defeated England and France in industrial competition. Nevertheless, the German political system bore a closer resemblance to that which had been inherited from the early days of capitalism than to the British parliamentary system. Important economic factors were largely responsible for this dissimilarity; the smaller amount of rentier incomes and the lesser influence of the rentier outlook upon the working-class, the consequently greater social antagonisms and higher degree of class consciousness amongst the workers.

The conditions for bourgeois democracy only exist where finance capital can exploit the colonial peoples and draw huge revenues from foreign investments. If it is the people of the home country who are being exploited by monopolies, and profits can only be obtained by investment at home, then the middle-class will be expropriated and pauperised, and the whole working-class crushed down to the lowest level of existence without hope either of improved conditions or security.

It is therefore absurd to imagine that a return to bourgeois democracy is possible in those imperialist countries which have no colonial empires, no substantial foreign investments. Fascism is not an accident or the wicked exploit of one man or party. It is the last desperate effort of capitalism to survive in the "Have-Not" countries and to convert them into "Have" imperialisms. People may think they are fighting for the recovery of democratic rights and liberties when they struggle against the Fascist dictatorship, but the struggle cannot lead to the revival of bourgeois democracy relying upon a satisfied and prosperous middle-class and a labour aristocracy.

How is it possible to return to bourgeois democracy if the capitalist class is holding to Fascism because it is no longer possible to secure capitalist economy without open and strengthened forms of repression and dictatorship? This antagonism is solved by a new argument, put forward

by the protagonists of the Popular Front. They argue that only "the most reactionary, the most chauvinistic, and the most imperialist elements of the bourgeoisie" are for Fascism, or are closely connected with the Fascist state.

In Great Britain, France, and even in Germany and the smaller European countries there was either bourgeois democracy or progress towards it before the war. But this democracy had little in common with the ideals of those who fought for the bourgeois revolution in the late eighteenth and early nineteenth centuries.

Parliament lost much of the reality of power once its control became less effective through the growth of a large bureaucracy directly connected with the financial aristocracy. Marx emphasised that democratic institutions are only effective if they are "executive and legislative at the same time . . . instead of deciding once in three or six years."¹ Lenin wrote about proletarian democracy:

"Representative institutions remain, but parliamentarism as a special system, as a division of labour between the legislative and the executive functions, as a privileged position for the deputies, no longer exists. Without representative institutions we cannot imagine democracy, not even proletarian democracy; but we can and must think of democracy without parliamentarism."²

Parliamentary government is on the decline to-day even in the democratic countries, even in the "Mother of Parliaments" of the oldest capitalist country. The English historian James Bryce, in his book on *Democracy*, points out "the decline of the Legislature . . . the best citizens are less disposed to enter the Chamber . . . its proceedings are less fully reported and excite less interest, and for one reason or another, the respect felt for it has waned. . . . There is evidence to indicate in nearly every country some decline from that admiration of, and confidence in, the system of representative government which in

¹ Marx, *The Civil War in France*, A Handbook of Marxism, ed. by E. Burns, p. 144 ff.

² *State and Revolution*, 1934, p. 35.

England possessed the generation who took their political philosophy from Hallam and Macaulay . . ." (p. 367).

This decline of the Legislature is inevitable when the extension of the functions of the state has led to the creation of a great civil service in which the highest posts are held by men closely connected with the capitalist aristocracy which decides the real political issues both inside and outside Parliament. The real power of Parliament declines, and the people realise instinctively that this has happened. Even where, as in England, the civil service is not venal, this tends to be the case, since the higher permanent officials belong by training and environment to the capitalist class and share its ideology.

The fact that, since the creation of the Exchange Equalisation Fund, the Treasury may override the Bank of England, which formerly was in sole control of the currency, does not mean that Parliament has increased its powers at the expense of the Bank of England, but rather that other big capitalist interests now rival the "private" or "merchant" banks who control the Bank of England. This development is itself an expression of the beginnings in Britain of the type of finance capital which we have described in Germany. To-day the private banks, which are frequently designated by the term "the City," and which are primarily interested in foreign trade and investment, are waning in influence before the rise of finance capital based on investment at home. In any case, finance capital is able everywhere to exert overwhelming pressure on elected governments through control of the key positions in the national economy: the banks, the Stock Exchange, raw material supplies, and so forth. The Bank of England, which is independent of Parliament, has a decisive influence on home and foreign policy.

Many small capitalists, unable to become rich by expanding their production, on account of the competition of large-scale enterprises, speculate instead. In *The Evolution of Modern Capitalism*, J. A. Hobson states that "the creation, absorption and supreme control of the most profitable forms of natural monopoly and other abnormally prosperous business impart a strength and solidity to the new financial

oligarchy which enable it to fasten its hold still more firmly on the necks of the proletariat of capital, who thus, cut off more and more from secure investments, are driven into the "gambling hells" of speculative stocks and shares kept by these masters of finance."¹

Seeking security of existence above all things, the small capitalist invests his money in fixed interest bearing securities, or rentes. But in many countries, as well as in Germany, bank failures, inflation and devaluation have expropriated these small rentiers. This process is an international one but has gone farthest in the countries without colonial empires, where dictatorships have replaced representative governments.

The small rentier represents "the dead hand of the past."

"Since the claims of the rentier can be honoured only through the deprivation (by means of increased taxation in the case of public debts) of every one else, in a really critical situation he must give way. His defeat is accomplished through repudiation and currency depreciation. . . . In 1924 Keynes estimated that since the World War fixed incomes had lost about half of their real value in England, seven-eighths in France, eleven-twelfths in Italy, and virtually all value in Germany, the succession States of Austria-Hungary and Russia. The world wide depression which began in 1929 increased the real value of the incomes of some rentiers through the fall in prices but wiped out the entire value of the investments of others. . . . Throughout the nineteenth century the ranks of the rentiers were constantly augmented by the accumulated funds of one middle class family after another. But recent circumstances raise the question as to whether he is not destined to be absorbed either into the ranks of the workers or . . . into the ranks of vested interests."²

This does not mean that incomes from rents, gilt-edged securities and debentures disappear; only that they are centralised. Indeed, incomes from such sources have increased most in the Fascist countries. Schacht refused to devalue the mark, although the pound, the dollar and the franc have all been devalued. Yet a continuous process of expropriation of the small capitalists, of the middle-classes, and of everyone who has any savings, is going on in Germany.

¹ 1906, p. 252.

² I. C. Merriam, "The Rentier" in *Encyclopædia of the Social Sciences*.

The method of expropriation is by price-fixing by the monopolists, by the exercise of state power, and by taking possession of the funds of the Savings Banks and Insurance Institutions.

The parliamentary system works if a large middle-class exists which has relative security of existence and therefore is opposed to any revolutionary movement. The middle-classes will not stick to this golden rule when they have lost security of existence, and suffered economically as much as or even more than the workers. When that happens the economic basis for the parliamentary system (as for the Weimar Republic) is destroyed. A policy which merely sticks to the *status quo*, to a system which was disastrous for the economic existence of the middle classes, cannot win their confidence. It is therefore a contradiction to attempt to establish an alliance between the working-class and the middle-classes by fighting for the *status quo* or for "parliamentary democracy". When the ruined middle-classes are economically satisfied, the parliamentary system satisfies them and Fascism will not become a serious danger. This only occurs after the economic downfall of the middle-classes. Then they are inclined to follow any movement which promises them a new security of existence.

Even in democratic countries the civil service has grown of recent years more and more independent of parliamentary control and of the "will of the people". "The time," writes Ernest J. P. Benn, "has almost arrived when all legislation will originate with the bureaucrats, when the will of the people will be a formal force, and when one class, aptly designated the New Despotism, will both make and administer our laws. The nemesis of democracy will then be complete."¹

Ramsay Muir comes to a similar conclusion in his book *How Britain is Governed*. "The methods whereby Parliament is supposed (in the theory of the textbooks) to 'control' the administrative machine and the working of bureaucracy appear, on a first view to be singularly ineffective; so ineffective that the growing power of bureaucracy is by no means surprising" (p. 80).

¹ Ernest J. P. Benn, *Modern Government*, 1936, p. 109.

Under the National Socialists the state bureaucracy has become infinitely more powerful, and appears to be absolutely independent. This independence, is however, based on powerful armed forces and on the support of the financial and industrial aristocracy. The existence of the powerful Fascist state-machine depends upon certain changes in the composition of the capitalist class which are peculiar to Germany, but which are also present in lesser degree in other countries.

It is obviously only one step from the control of the whole national economy by a few trusts and cartels to complete control by the State or to "National Socialism". The "authoritarian" state is far better able than the democratic parliamentary state to impose a national plan of production, consumption, and investment upon the whole country. But this will only be done if absolute scarcity of goods endangers the social system, and this will not happen until war comes.

Government by a bureaucracy and state interventionism are not the same thing as state socialism. Capitalist monopolies still maintain prices at a level sufficient to secure their profits. The bureaucracy has to raise enormous sums for the maintenance of the inflated state-machine and for armaments. Individual bureaucrats get their share of the income from monopolies. A large proportion of the national revenue has to go for the maintenance of an industrial machine which can turn out means of destruction in large quantities. Such an economy can only be kept going by the strongest pressure upon the small producers as well as upon the working-class.

The Fascists claim that "real socialism" can only be achieved on a national basis. Certain facts correspond to this theory: huge organisations are created, aiming at the control of social production and consumption, and able to control them. It is not scarcity of land or raw materials which is driving Germany to war. The tremendous production of armaments is itself a proof that the productive forces of the country might be used to increase the production of consumers' goods and raise the standard of life of the people. But the leaders of the state only sponsor investments

which lead to an increase in the production of the means of destruction.

A peaceful development of National Socialism is incompatible with the capitalist economy, which still exists in spite of state interventionism. Finance capital has no alternative: peace with the other powers of Europe means acceptance of the existing division of the world, leaving to other countries the control of the world market and the principal supplies of raw materials. It means the destruction of the productive forces created to compete against other powers for international supremacy. The loss of these investments would be ruinous for the most influential national trusts and monopolies. Finance capital in the "Have-Not" countries is bound to try to make its own nation independent of world economy, but not with the aim of making it really self-sufficient. Self-sufficiency implies that a country is cutting itself off from the rest of the world and from the international division of labour in order to become a peaceful society relying entirely upon its own resources to feed itself, and putting a stop to the expansionist forces of capitalism. But National Socialism cannot lead to such a type of self-sufficiency. Fascist self-sufficiency is a contradiction in terms, since Fascism is based upon a continuous expansion of the means of production and means of destruction, which can only be utilised in imperialist expansion, i.e. in war, and which in no wise contribute to a better and more peaceful life for its citizens.

The new raw material industries created to replace imports can only exist under conditions of an armaments boom or of actual war. The real aim of National Socialism in a country such as Germany, which can only exist as a part of world economy, must necessarily be preparation for war and the construction of an industrial machine able to break down the existing international division of labour by making Germany the master of a larger territory and of some of the decisive raw material resources of the world, thus giving her a dominant position on the world market. Since this entails huge unproductive capital investments and heavy burdens on the people, an extremely powerful state-machine of repression must be maintained.

"Socialism" of this kind prepares the ground for true socialism by establishing vast organisations which can plan and control the national economy; but at the same time the very idea of socialism is compromised. In fact, many people now believe that socialism means the rule of a huge and corrupt state bureaucracy. This development of the conception of socialism is further proof that socialism without a ruling state bureaucracy can only be achieved on an international basis.

Chapter II

A NEW STAGE IN THE LABOUR MOVEMENT

THE DEVELOPMENT OF CAPITALISM FROM THE PHASE OF FREE competition to that of international monopolies and imperialism, and then to that in which national monopolies are predominant, marks also three different phases in the history of the labour movement.

Those countries in which bourgeois revolutions occurred early were able to acquire huge colonial empires and subsequently large foreign investments.¹ In those capitalist countries where bourgeois revolutions were unsuccessful, but where the old feudal forms of production and social relationship were destroyed from above or where industrialisation occurred late, finance capital has had to rely on national monopolies from the outset. This has had a profound influence upon the international labour movement. In those countries where the bourgeois class overthrew the feudal nobility, powerful revolutionary movements fought against the capitalist régime—the Chartists in England, the Communards in France. Their defeat brought an end to such revolutionary movements, but a new kind of labour movement developed, which made use of representative institutions and of the democratic rights and liberties which had been won in the struggle against the feudal ruling class, without aiming at the destruction of the capitalist system. This movement was pre-eminently a trade-union movement, struggling for better conditions of labour within the framework of the capitalist system. Marx, writing in the early days of this development in Great Britain and France, thought that the next proletarian struggle against capitalism would begin in Germany.

¹ These remarks do not apply to the U.S.A., where capitalism developed in unique circumstances, and the history of the American working class requires a separate study.

in a country whose imperialist expansion had been successful, and where labour had accordingly been able to win concessions from capital without a revolutionary struggle, whilst the capitalist class nevertheless was able to accumulate enormous profits, looked back at the revolutionary past of the British labour movement as an "infantile disease". They failed to see the indirect dependence of large sections of the middle and working-classes on the international monopolies which "their" imperialist country had won. They therefore mechanically generalised from their own experience and their own epoch, and thought that capitalist society would peacefully and gradually develop into one where all classes would be prosperous.

Lenin continued the work of Marx and Engels into our own epoch of imperialist antagonisms. He had first made a profound study of the development of capitalism in Russia. Russian capitalism had no international monopolies, whilst foreign finance capital (in particular, French) had important investments in Russia itself. Some parts of Russia were exploited and oppressed by Russian capitalism as if they were colonial territories. Conditions in Tsarist Russia helped Lenin to understand the effects of imperialism on the labour movement.

Imperialism, however, may rely on internal monopolies as well as on the exploitation of colonies and foreign investments. It is the internal monopolies which assume the greatest importance in the final, the decaying stage of imperialism, especially in the "Have-Not" countries. At this stage of capitalist development the workers are no longer able to improve their conditions simply by collective action through their trade unions. Their economic decline drives them to utilise the democratic rights and liberties won in the past in defence of their livelihood, and thus eventually leads them into open conflict with the capitalist system. Marx expected that, once the working-class began to make use of its constitutional rights to attack capitalism, the capitalist state would assume the constitutional rights of the working class and bourgeois democracy would be superseded by an open dictatorship either of the capitalist-class or of the proletariat. But many socialist writers fail

even to-day to see the inevitability of this outcome, and still imagine that the workers will be able to make use of Parliament and their constitutional rights to achieve socialism peacefully and gradually.

Government by the representatives of the people in Parliament was not achieved by a revolutionary struggle of the working-class, and it only flourished so long as the workers were under imperialist influence, and followed the lead of a labour aristocracy; so long, that is to say, as they were more rentier-minded than anti-capitalist. The working-class movement in the heyday of imperialism is the product not of revolutionary struggles against feudalism and reaction, but of a period of parliamentary government, during which it has adapted itself to the social system and to the use of representative institutions. This tradition remains a powerful one, even after imperialism enters on its period of decline, with the establishment and extension of national monopolies which destroy the economic basis for a prosperous middle-class and a labour aristocracy.

In the early days of capitalism, after the overthrow of the feudal state, the bourgeois régime was relatively weak and might easily have been defeated by a revolutionary working-class. Hence the optimistic outlook of Marx in the sixties and seventies of the last century.

To-day capitalism is able to construct a powerful state-machine of coercion before the labour movement can overcome the old traditions, born of a peaceful and prosperous era when economic concessions could be won with comparative ease. If, as in Britain and France, international monopolies form the basis of finance capital, and a labour aristocracy therefore exists, the capitalist state is able to win the support of a large section of the working-class, or at least of its representatives, in case of war. But where, as in Germany, national monopolies are predominant, militarism comes into open conflict with the labour movement, since the latter is forced into hostility to capitalism and therefore also to militarism.

This fundamental connection between economics and politics makes it easier to understand the development of the German labour movement and the present-day problems

of the German working-class. In the early days of German militarism the labour movement was still under the influence of the revolution of 1848, and many labour leaders looked to Marx for guidance. Nevertheless Bismarck, who had no interest in theories but possessed a remarkable instinct where the interests and needs of his class were concerned, endeavoured to make use of the working-class movement to strengthen German militarism and the Prussian monarchy. He spoke to Lassalle concerning the possibility of reconciliation between the monarchy and the socialist labour movement. Lassalle's opportunism appeared to justify Bismarck's belief that a "national labour movement" would "defend the Fatherland". But during the Franco-Prussian war of 1870 the Social Democrats, who had originally voted for war credits, started a militant anti-war campaign when it became clear that victory was being used by Bismarck to carry out an imperialist policy. The Paris Commune, the first proletarian revolution in history, showed the tremendous power of the working-class, and Bismarck became fully conscious of the danger threatening German militarism from the labour movement. The German Social Democrats showed their sympathy with the Paris Commune and vigorously opposed Bismarck's policy. Bismarck came to the conclusion that the Prussian military state would be seriously endangered by the existence of a labour movement, and that therefore the latter must be crushed.

Bismarck was opposed to a policy of imperialist expansion overseas. He wanted to make Germany the strongest military power in Europe, and here his instinct did not mislead him. For German imperialism, without a colonial empire and large foreign investments, would never have a chance to develop a "national labour movement". There could be no economic basis for a labour aristocracy.

Nevertheless, Bismarck failed to crush Social Democracy by force, and the anti-socialist laws were repealed in 1890. The repeal of these laws was not due only to the militant struggle which the socialists had carried on against them. To-day the effect of imperialism on the labour movement is more clearly visible than fifty years ago, and we can see

that it was essential that the anti-socialist laws should be repealed at the time when Germany was acquiring a colonial empire and investing abroad.

The success of British trade-unionism made a profound impression on the leaders of German Social Democracy. German imperialist expansion made her one of the main industrial centres of the world, and many working-class leaders believed that the German labour movement would develop along the same lines as the British.

"But a real working-class movement will develop here (in England)—unless something unexpected happens—only when the workers begin to feel that the British world monopoly has been broken. Participation in the domination of the world market was and is the economic basis of the political nullity of the British workers. But if America and the joint competition of the other industrial countries make a considerable breach in this monopoly, you will see things moving here."¹

Marx had dealt in one of his earliest works with the limits of trade-union struggle, that is to say, of the purely economic struggles of the working-class. He had warned the labour movement against the illusions fostered by the trade union leaders, who did not wish to fight against "the whole system" of capitalism. According to Marx's thesis the trade-unions can only struggle against "the continuous excesses of capital" and are unable to prevent the eventual economic decline of the working-class under capitalism.

¹ At the same time, quite apart from the general servitude involved in the wages system, the working class, ought not to exaggerate to themselves the ultimate working of these every day struggles. They ought not to forget that they are fighting with the causes of those effects, they are retarding the downward movement, but not changing its direction, that they are applying palliatives, not curing the malady. They ought, therefore, not to be exclusively absorbed in these unavoidable guerilla fights incessantly springing up from the never-ceasing encroachments of Capital or changes of the market. They ought to understand that, with all the miseries it imposes upon them, the present system simultaneously engenders the material conditions and the social forms necessary from economic reconstruction of

¹ *Engels to Bebel* = 4 August, 1873

THE HISTORICAL SIGNIFICANCE OF NATIONAL SOCIALISM

society. Instead of the conservative motto 'A fair day's wages for a fair day's work!' they ought to inscribe on their banner the revolutionary catchword, 'Abolition of the wages system.'"¹

The experience of the British trade unions was, that the upper ranks of the working-class could win concessions and raise their standard of life without attacking the capitalist system as a whole. The trade-unions accordingly supported the Liberal Party and at first opposed the formation of an independent Labour Party. Marx, however, perceived the dependence of the relative prosperity of the British workers on British international monopolies and colonial exploitation.

Although its influence was predominant in the Second International before the war, the German Social Democratic Party came more and more under trade-union influence. The German trade-unions had been formed by the Social Democratic Party, but when they became mass organisations with a large number of officials controlling large financial resources, they ceased to support a party policy which went against their immediate interests. A group of intellectuals in the Social Democratic Party started a campaign against Marx's theories and wanted to "revise" Marxism. These "revisionists" were led by Eduard Bernstein. They glorified the position of the British workers and claimed that the development of capitalist production would lead to the prosperity of all classes. They pointed to the increasing number of rentiers as a proof that the main tendency in capitalist society was not towards an increase in the numbers of the proletariat, but towards an increase in the numbers of people with small savings, and in general towards a diffusion of the ownership of property.

"The number of those who share in the gains of the national economy increased immensely. If Lassalle spoke of regiments of workers, to-day one can speak not merely of regiments of shareholders, but of armies of shareholders amongst whom the ownership of industrial shares is spread. An undertaking is fixed in space, but shares become more and more mobile and can migrate from one owner to another and from one country to another."²

¹ K. Marx, *Value, Price and Profit*, p. 92.

² E. Bernstein, *Der Sozialismus Einst und Jetzt*, 1922, p. 51.

In 1909 Bernstein wrote in opposition to the theory of the increasing concentration of capital and the decline of the middle-classes:

"It is absolutely wrong to assume that present developments lead to a relative or even absolute diminution in the number of the owning class. The members of the owning class do not increase 'more or less,' but in general, i.e. both absolutely and relatively."¹

Nevertheless the revisionists formed only a small minority at the pre-war Congresses of the Social Democratic Party. The traditions of 1848, the influence of Marx and Engels, and the recent experience of the anti-socialist laws, were too powerful for the members to revise their programme. There was the fundamental fact that German imperialism was unable to form a labour aristocracy as in Britain. On the other hand, most of the German trade-unions leaders fully supported the theories which opposed political action, and they compelled the Social Democratic Party not to take any action involving the trade-unions in a frontal attack on the capitalist system and the state.

The spokesman of "orthodox" Marxists, Karl Kausky, on the other hand, extremely pedantic in his method of thinking, was unable to recognise the international trend of capitalism at the stage of imperialism. He also took it for granted that the rise of the British rentier class showed the future of the middle-classes in all capitalist countries, so that the working-class would become more and more opposed by the middle-classes.

"To an increasing extent that class which previously formed the heart of petty-bourgeois democracy, and fought energetically for the revolution, later at least, although only mild allies of the revolutionary proletariat, became everywhere its most enraged enemies. . . . It seems to be the mission of imperialism to complete the isolation of the proletariat and to condemn it to political sterility just at the moment when it needs to extend its political power more than ever before."²

The Russian Revolution of 1905, however, found an echo within the German Social Democratic Party. Rosa Luxemb-

¹ E. Bernstein, *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie*, 1909, p. 25.

² K. Kausky, *Der Weg zur Macht*, 1910, p. 96.

burg became the spokesman of the left opposition, which favoured mass political strikes as a weapon against the capitalist system and for the conquest of political rights by the workers, in particular the right to universal and equal suffrage. She condemned the trade-union leaders for refusing to utilise the great strength of the trade-unions against capitalism, and accused them of being afraid of conflict with the capitalist state. Finding themselves thus attacked, the trade-union leaders, who hitherto had paid little attention to the "quarrels of the intellectuals" in the Social Democratic Party, turned to the revisionists for theoretical support for their opportunism. Stampfer, the former editor-in-chief of *Vorwärts* (central organ of German Social-Democracy) wrote:

"The trade unions had become an economic power since the end of the nineteenth century. They fought for a shorter working day, they were proud of the practical results they had achieved, they had no use for political disturbances. . . . Before the outbreak of the War the Free Trade Unions had a membership of about 2½ millions. They had an income of over 80 million marks. About 37 per cent of the expenses were spent for strikes, 63 per cent for relief, for unemployed and sick members, for training classes, etc."¹

They began to use the revisionists as teachers in the trade-union schools, and gave them their support in the Social Democratic Party.²

The leaders of the left opposition did not fully understand the influence of imperialism on the labour movement. Kautsky defended Marxism against Bernstein, but he defended it pedantically and he made no attempt to analyse the new imperialist developments.

Rosa Luxemburg, on the other hand, was not only extremely intelligent, but also one of the great revolutionary leaders in history. She always stood for the revolutionary struggle of the exploited and oppressed. But even she did not perceive the effect of imperialist expansion on the working-class of the "mother countries". She was not able to recognise the fact that the exploitation of coloured peoples

¹ Stampfer "Die 14 Jahre," 1936, p. 15.

² See A. Winnig, *Vom Proletariat Zum Arbeitertum*, 1930, p. 102.

enabled the upper ranks of the working class in the imperialist country to improve their material conditions. She therefore hoped that the sickness of Social Democracy—bureaucracy and opportunism—could be overcome by the spontaneous action of the workers in the next revolutionary crisis, which she thought must inevitably occur.

When the war broke out, it was the trade-union leaders who decided the policy of the Social Democratic Party and turned the trade-unions into a part of the military machine.¹ Rose Luxemburg and Karl Liebknecht organised the Spartakus Bund, which carried on illegal propaganda against militarism and war.

At the end of the war Germany had lost the basis for the existence of a labour aristocracy, i.e. colonial monopolies and foreign investments.

“The receipt of monopolistically high profits by the capitalists of one of numerous branches of industry, of one of numerous countries, etc., makes it economically possible for them to bribe individual strata of the workers, and sometimes also a fairly considerable minority of them, and win them to the side of the bourgeoisie of an industry or nation, against all the others. The intensification of antagonisms between imperialist nations for the partition of the world increases this tendency.”²

This corruption of a section of the working-class can only occur if monopoly profits are obtained at the expense of foreign countries. If the people at home must pay the tribute there can be no basis for a labour aristocracy.

The concessions obtained by the German workers after the war were given for political reasons, in spite of the impoverishment of German capitalism. They calmed the working-class and obviated the dangers of revolution. As soon as the “democratic republic” was established an increasingly rapid centralisation of capital occurred. Many new monopolies were formed and the old ones reorganised. The middle-class lost its property and savings. In spite of this the trade-union leaders maintained their illusions about prosperous capitalism and when the world economic

¹ See A. Winnie, *Vom Parlament zum Arbeiterstaat*, 1930, p. 120 ff.

² Lenin, *Imperialism*, second ed., 1934, p. 113.

crisis upset their illusions they tried to evade a conflict with the State.

"After 1930 the only alternative for the trade-unions was to become 100 per cent political. . . . This, however, would have led to a general strike and to civil war with a doubtful end."¹

The former leaders of German Social Democracy, not realising what was happening, could not understand the failure of bourgeois democracy in Germany, nor appreciate the chances of successful proletarian revolution. Kautsky wrote in the days of the Weimar Republic that socialism must prevail because the proletariat automatically becomes the majority of the population. He even said that it did not matter if the capitalists retained economic power, so long as the workers had the right to send their representatives to Parliament.

"The proletariat in the capitalist states will become a larger and larger majority of the nation. And its interests will become more and more identified with the interests of all working classes. The capitalists will become stronger and stronger economically, the proletariat politically."²

The Weimar Republic, however, led to the victory of Fascism, not to that of socialism. Only then did the German Social Democratic trade-unionist admit that during the last days of the Weimar Republic the trade-unions could have saved themselves only by becoming a revolutionary political movement.

The Social Democrats failed to see in its true light the relation between the middle-classes and the proletariat. When the middle-classes were ruined the Social Democrats believed that they would continue to support reactionary movements and in particular anti-labour movements, as they had done when they were satisfied and prosperous. Kautsky evolved a theory that the peculiarity of imperialism is the reactionary policy of the middle-classes. But when internal monopolies have ruined the middle-classes a new

¹ L. Franz (a former Social Democratic leader of German trade-unions), *Gewerkschaften Unter Demokratie und Diktatur*, 1936, p. 39.

² K. Kautsky, *Makrialistische Geschichtsauffassung*, 1930, pp. 576-8.

situation is created. Marx had said that the independent middle-classes would be reactionary so long as they were defending their incomes.

"The lower middle-classes, the small manufacturer, the shop-keeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle-class. They are therefore not revolutionary, but conservative. Nay more, they are reactionary, for they try to roll back the wheel of history. If by chance they are revolutionary, they are so only in view of their impending transfer into the proletariat; they thus defend not their present, but their future interests; they desert their own standpoint to place themselves at that of the proletariat."¹

In post-war Germany a radical change has occurred in the situation of the middle-classes. Their existence is so insecure and they are so poor that they would prefer any kind of security to "independence". Although they are economically still independent in theory, in fact they have been proletarianised and are no longer distinguished from the proletariat by higher incomes and greater security of existence. But they are not in a position to organise in defence of their interests, and in this respect their position compares unfavourably with that of the industrial workers. They have given up all hope of security and wealth, and want only to escape from "ruinous competition".

It is easier, even under Fascism, for the workers than for the middle-classes to form underground organisations. Small groups of militants can gain influence over hundreds of thousands of workers. The stronger political pressure which the working-class can exert, in spite of all repressive measures, has often had the effect of compelling the National Socialist government to lessen the economic pressure upon them, whilst increasing that upon the middle classes. The facts show that between 1933 and 1936 the material conditions of the middle-classes have deteriorated more than those of the working-class.

The relation between the working-class and the ruined petty bourgeoisie has been radically changed by the disappearance of the labour aristocracy. As we shall show

¹ *Communist Manifesto*.

in chapter 14, the skilled workers, who cannot easily be replaced and who therefore should be in a strong bargaining position, are unable to act collectively to improve their conditions without coming into open conflict with the Fascist state. Since a non-political trade-union struggle is no longer possible, the best representatives of the skilled workers join the illegal opposition movements preparing to destroy the existing economic and political system as soon as a chance offers. By thus becoming politically minded such skilled workers are no longer merely the defenders of their group interests, but become leaders of all the oppressed and exploited elements in the population.

Those who under-estimate the possibilities of the working-class movement in Fascist Germany, usually do so because they over-estimate the strength of German militarism. We have seen how German capitalism after the war was compelled to extend the internal monopolies in order to secure the super-profits and the centralisation of resources essential if it were to compete against foreign countries. There was therefore, on the one hand, an expansion of the industries under the control of the monopolists and, on the other hand, a shrinkage in consumption. The Fascist solution for the surplus capacity of heavy industry was rearmament, which rendered the investments of finance capital once more profitable and so strengthened the trust magnates.

The militarisation of the country, however, accelerated the process begun by the economic dictatorship of the internal monopolies—the expropriation of the middle-classes and the liquidation of the labour aristocracy. The more armaments Germany piles up, the greater the pressure on the masses, and the less chance of securing the willing and enthusiastic support of the people for a war. German militarists to-day may have begun to doubt whether it would not have been wiser to slow down the tempo of rearmament whilst granting some material concessions to the workers. But since Germany is trying to become the strongest military power in Europe, she cannot do this.

To-day Germany is financing armaments expenditure on a scale considerably above the economic and financial strength of German capitalism. Nevertheless, the piling

up of debts which this entails constitutes no immediate danger to the economic and financial system. The price is paid by those industries which work for export and whose production is shrinking. Germany is ceasing to be the leading nation in technical efficiency, because the investments essential for ensuring technical improvements can no longer be made, and because raw materials cannot be imported in sufficient quantities to keep the industries working at full capacity, and therefore cheaply. As Germany loses her privileged position on the world market, due in the past to the quality of her goods and to her efficiency in production, the upper ranks of the working-class will be less and less able to maintain a privileged position. This in turn means that the National Socialists will be less and less able to rely upon the support of the people in war.

PART IV

WHO IS SATISFIED WITH NATIONAL SOCIALISM?

Chapter 12

WHY THE CAPITALISTS ARE DISCONTENTED

THE AUTHORITY OF THE INDIVIDUAL CAPITALIST HAS BEEN increased in his factory or workshop. He is now the "leader." He no longer needs to compromise with trade-union representatives or to bother his head about strikes. In addition to this, rearmament has led to a boom in many industries. Sales have increased and prices have risen. Companies which were almost bankrupt in 1932 have been able to show profits and distribute dividends for the past two or three years.¹ A Berlin paper writes

'Most companies have enjoyed huge profits during the past few years on account of the measures taken by the National Socialist Government. Profits have been high because wages and salaries have remained stationary''²

In spite of this new prosperity almost every individual capitalist or business manager grumbles and is dissatisfied. Why does he not acknowledge the benefits which have accrued to him from National Socialism? Why is he so ungrateful to the system which, as Hitler proclaims, has saved him from Bolshevism? The answer is to be found in the contrast between the position of those concerns which have close affiliations with the state bureaucracy, and accordingly exercise great political influence and get privileges in obtaining foreign currency, subsidies and state contracts, and those which have no such advantages. The majority of the industrialists are at a great disadvantage on account of the privileges enjoyed by the large concerns

¹ Dividends of German joint-stock companies in million marks

1932-3	379	1935-6	601
1933-4	520	1936-7	800

—*Jahrbuch der Nationalsozialistischen Wirtschaft*, 1937, p. 180

² *Der Zeitungs*, No. 37, 1936

and the trusts. Whereas the rearmament boom has created a golden harvest for the iron and steel trusts and for a few specialised industries, other branches of production have suffered greatly, especially from the shortage of raw materials.¹

Domestic production of raw materials is almost entirely controlled by powerful cartels and syndicates. The manufacture of consumable goods, in particular textiles, is mainly in the hands of medium and small independent producers. State policy, as we have seen, has strengthened the old established cartels and syndicates of the producers of raw materials. Raw material prices have increased more than is shown in the official reports. This applies especially to home-produced raw materials which are under the control of the cartels and syndicates. They often do not record any price increase. But during the depression these raw materials were sold below the official cartel or syndicate price, without any alteration in the stated prices. The price rebates having now been abolished the consumers pay 20 to 50 per cent more than previously.

The Prices Commissar, Herr Josef Wagner, appointed on 29th October, 1936, was given extensive powers of control over prices. The Nazi Press announced that he would not merely watch the prices of finished products but also influence the items responsible for the price level. This should have meant that he would control and cut down the prices demanded by the raw material monopolists, but he himself declared:

“I want to say that I shall disappoint all hopes which are based on false assumptions. I shall take no decision without due forethought . . . as to the ultimate consequences and without the approval of General Goering.”

There have been only two instances in which the prices of important raw materials set by the syndicates have been reduced. The price of cement has been reduced by 10 per cent and that of fertilisers by 25 per cent (March, 1937). The cement producers had made enormous profits from the armaments boom and from the construction of

¹ At the end of 1936 the prices of shares in mining companies and those in heavy industry were only 5% below the level of the prosperity year 1928, whilst those of other companies were 31 to 33% below.

underground defences. They had sold below the syndicate prices to private firms whilst receiving the full price from the state. For the first time since the war they were able to work at full capacity and cover the costs of production. The interesting point is that whereas this reduction was made at the expense of the Chemical Trust and the potash companies, no similar action was taken against the iron and steel producers, the latter have continued to reap the largest profits from armaments whilst maintaining their prices at the highest level.

Another of Schacht's measures which has embittered many manufacturers is the export subsidy tax, which has to be paid by all industrial and commercial concerns into a fund for the subvention of exports. This tax realised 725 million marks in 1935-36 and 600 million in 1936-37. Most of the subsidy is paid to the armaments firms. Yet all manufacturers and merchants have to pay an equal share into the fund.

It is abundantly clear that the Price Commissioner does not interfere with the powerful cartels and syndicates but forces the less influential capitalists to reduce their prices. They are not even permitted to increase their selling prices when their costs of production increase.

It will be of interest here to note some of the remarks made in the 1936 annual reports of the Chambers of Commerce and Industry.

Report of the Essen Chamber of Commerce & Industry

"The difficulties which a large section of the wholesale trade has to contend with arise in the main from the general price-fixing policy. Wholesale trade has a just claim to such conditions as will at least guarantee its existence. One must also take into consideration the fact that by the loss of middleman's toll by means of the turnover tax, the overhead charges have been considerably increased through the increased burden of warehousing costs."

Dusseldorf Chamber of Commerce

"Trade has already made great sacrifices. Nevertheless there is a limit to such sacrifices, as factories cannot long continue to work without profit. As in the distributive trades, the financially weaker concerns are very hard hit by these difficulties."

Heavy taxation is another factor causing discontent among German business men. The trusts and big firm find many ways of reducing their tax burdens, but the independent industrialists and traders cannot evade taxation and have to pay a large percentage of their incomes to the state. The Nazi Government exercises a far stricter control over taxation than the Weimar Republic, so that the small capitalist is forced to pay more than in the past. The state revenue from taxation has increased by over 3,000 million marks, i.e. by 46.2 per cent, between 1932-33 and 1935-36. Reinhart, the Secretary of State, who is also Director of the Commerz- and Privatbank, has announced that further taxation increases for 1936-37 are a vital state necessity. At a meeting of officials of the Finance Ministry held at Eisenach on 12th May, 1936 he specified 1,000 million marks as the minimum required, which means a 15 per cent increase. The tax on corporation incomes was increased by 25 per cent in 1936 and by 50 per cent in 1937.

Uncertainty about future market conditions and the fear that the rearmament boom may be interrupted by the state's financial difficulties, and the general dependence on government orders, lead capitalists to restrict new investments to a minimum in order to avoid risk. The new industries being developed under the Four Year Plan for the production of substitute raw materials to replace imports, attract new capital because the state gives special guarantees against loss:

"In special cases 'commercial guarantee contracts' will be granted by the government to works undertaking to fulfil the requirements of the Four Year Plan. These guarantees will be given for periods of five to ten years. The price of the finished product will be fixed high enough to cover the costs of production, amortisation of capital and a reasonable profit."¹

The capitalists or corporations which have funds to invest have practically no other field open to them than state bonds. They try to escape from this kind of investments by buying land estate or by unnecessarily renewing

¹From the periodical *Der Vierjahresplan* ("The Four Year Plan"), 1937.

machinery, etc. But this is controlled by the banks too and the scarcity of raw materials makes private investments difficult. The floating of new capital issues has been strictly limited on the German Stock Exchange. The banks are compelled to invest a large proportion of their liquid funds in State bills and Bonds. This is essential to finance the rearmament plans. But most German capitalists do not regard the state as a reliable debtor and are very reluctant to invest in state bonds. The state controlled banks and industries, the saving banks and other state banks have utilised all their reserves and deposits in buying Government bonds and bills. It is obvious that their solvency will be threatened if there is a new crisis in the state finances or if the currency is devalued.

The difficulties encountered by German capitalists were stressed by an industrialist from western Germany in a private talk with a German Social Democrat in February, 1937.

"No adequate distribution of profits in the form of dividends. . . . Nowadays we do not know what happens to the money. . . . Secret reserves. . . . But everything has a limit. Everything can't be hidden in the Balance Sheet. We are letting our premises fall into decay and we don't bother about the outward appearance. By this means industry is prevented from preparing for the coming crisis. Our entire business depends on armaments. How long will it go on. Of course, we are willing to share in all this but we fear the future. When the reaction sets in our clever government will have to help us out again."¹

It is only recently that even the big trusts were allowed to issue some new shares and this was for the fulfilment of orders under the Four Year Plan. The Stahlverein has been able to raise 183.7 million marks of new capital,² Otto Wolf, the iron and steel magnate has raised 15.8 million marks and Krupp 29.9 million.

In spite of the boasted prosperity there are plenty of causes for grumbling among the industrialists, business men and shareholders under the Third Reich.

¹ S.P.D., II, 1937.

² 74.2 million by the Union—Rheinische Braunkohlen A.-G.; 109.5 million by the Gelsenberg Benzin A.-G.

WHO IS SATISFIED WITH NATIONAL SOCIALISM?

There is an enormous increase in the number of bureaucratic organisations and a great deal of state interference with private enterprise. All this increases costs of production and prevents each individual business from planning ahead.¹ Every industrialist has to belong to a number of organisations; at the very least to his professional corporation and to the regional organisation (the Chambers of Commerce and Industry). Frequently he must also join a cartel or syndicate. All these organisations have greater powers under Fascism. The capitalist needs them to deal with the state officials; it is through them he must take his complaints about his insufficient supplies of raw materials or foreign currency, and it is through them he must apply for an export subsidy.

"The bureaucracy is inevitably more bureaucratic than before, and displays no fear of the implications of its themes. Bureaucratic work occupies the semi-officialdom of numerous Estates and Public Corporations (Nutrition Estates, Organisation of German Business, German Labour Front, etc.), the staffs of business undertakings which have to observe State requirements, and individual citizens. It has been stated that one commercial bank maintains 500 officials for dealing only with foreign exchange regulations. The manufacturer cannot get raw materials (and then only a ration) except on application, which must be documented by presentation of data of past consumption, present stocks, proof of orders, etc. The importer cannot ever, and the exporter can hardly ever, even initiate a deal without innumerable formalities. The industrial workman must take out and keep in order a work-book, and the farmer, under a recent decree, must keep certain, otherwise unnecessary, records for official inspection. The regulations about shop competition, which are but one branch of much wider retail trade regulation, fill closely 700 printed pages. The householder must now, as in time of war, keep margarine, bacon and fat cards. The Government has no other means of enforcing its system of vetoes, permits, and restrictions than by punishing transgressors; and in fact nearly all industrial, commercial and financial transactions for which prior official permission has not been maintained are criminal offences."²

This bureaucratic machinery costs far more to maintain than the old private associations. Moreover the capitalist

¹ p. 115a.

² "The Economic Outlook of Germany" by A. Parker, *Lloyds Bank Monthly Review*, July, 1937, p. 358.

has to be careful to make no open criticism and he must keep on good terms with the heads and subordinate officials of the various organisations. Schacht's organ, *Deutscher Volkswirt*, once published some figures kept secret from the ordinary public.

"A central organisation, for instance one which came into existence shortly after the seizure of power, and at that time managed to exist on a budget of 280,000 marks, now, with practically the same sphere of work, expends 17 million marks. One of its branches in 1932-33, when it had a membership of 20,000, had a pay roll of 40,000 marks. In 1934-35, with a membership of 54,000, it had a pay roll of 219,000. Of this sum, it is true, 36,000 marks go to the head officials—not the business heads. One of the smaller factories making bricks paid a total contribution of 96 marks to the association but to-day pays 311. A larger concern in the canning industry used to pay 1,450 and now pays 3,500. A large wholesale textile distributor used to pay 400 to the trade associations but now pays 5,500 to its successor."¹

In addition there are the state bureaux to which every capitalist has to report daily. Such are the bureau for the distribution of raw materials, the bureau which decides whether an increase in prices is justified, the bureau which deals with the skilled labour supply, and many others.

Germany has a long tradition in this sphere, there is excellent administrative machinery in existence for the control of foreign currency supplies, reserves of raw material and skilled labour. But in spite of this there is no national plan for the regulation of production and distribution. Many of the disadvantages of a state controlled economy are there, but not its advantages. Hitler's Four Year Plan—which is really Schacht's—is merely a scheme for giving financial assistance to enterprises essential for war needs and economic self-sufficiency. It merely outlines a general scheme for the distribution of state subsidies over the four years. Although Schacht has constructed a splendid machine for the control of the proceeds of foreign trade, it would be a mistake to identify this bureaucratic apparatus with state planning and complete control of the national

¹ *Deutscher Volkswirt* 17th May, 1935

economy. Schacht does not know himself how much foreign currency will be at his disposal or what will be the demands of the home market during the months ahead. He may exercise great influence over the economic life of the country by his control of raw materials, credits and foreign exchange. He may be able to encourage production in this or that branch of industry, to subsidise exports and to exert pressure upon the exporting firms to hand over foreign currency to the Reichsbank. But all this is not enough to make possible state planning and state control of production and trade.

In principle the demands of the various capitalist interests for foreign exchange and raw materials, or for subsidies, are decided upon by the state departments according to the armament needs and general war preparations of the country; the capitalist has to prove that a favourable answer to his demands will increase the nation's military strength. But how is the capitalist to prove whether he or his competitor is most deserving of support? There is not enough raw material, foreign exchange, or credits to satisfy the needs of all who apply. It is the state bureaucracy which has somehow to decide whose demands are most urgent and important. In practice, therefore, it is essential for the business man to be on good terms with the officials. Good relations with the officials may be a source of huge profits. Even the largest firm cannot neglect to court the favour of the bureaucrats. The famous integrity of the Prussian official is a thing of the past. It had already been weakened in 1918 and during the 1923 inflation. Under the Nazi régime the last remnants of this old Prussian tradition of honesty and integrity have disappeared. Many Nazi members, in particular old party members from ruined middle-class families, have obtained influential posts in these state departments. They are willing to use their influence with other old party members if a fitting recompense is offered. There is a joke current in the Berlin business community that it costs 20 marks to buy the average Nazi official who does not believe in National Socialism, 100 marks to buy the official who still believes, and 500 marks to buy a Nazi fanatic.

CAPITALISTS ARE DISCONTENTED

Berlin, as the centre of the new state bureaucracy, has increased in importance as a business centre. Many firms which do no business in the capital have moved their central offices to Berlin, since successful dealing with the state departments is so essential to their existence.

"Many German companies, rather than have half their executive spend their energies in journeys to Berlin, are finding it more profitable to transfer their entire organisation to the capital. As this tendency is constantly gaining ground, Dr. Schacht is flooded with protests of provincial Chambers of Commerce, demanding that the centralising movement should be stopped."

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“Strictly confidential!

“To the business leader personally!

“*The accursed hoarder!*

“It is definitely established that during the last few months in a number of the firms belonging to our Association inefficiency, self-seeking and misuse of capital have led to *long-term orders and unnecessary stocks of materials.*

“Purchases which in the normal way would not have been made until four or five months later, have been made long ahead; quite mad orders for the winter of 1937-38 for delivery in February-March, 1937, were placed and accepted by the suppliers.

“Such behaviour merits the most severe condemnation and can only be described as disgusting hoarding. It is, however, according to *the unambiguous statement of those charged with the fulfilment of the Four Year Plan, also a crime.*

“Instructions concerning stocks will be given during the next few days.

“Leaders of enterprises who fail to comply with these regulations will be pilloried.

“We draw your attention to the fact that under the new powers given to the state commissar of Prices he is empowered to detain or sentence to prison evil-doers or saboteurs and hoarders and that he can close down concerns altogether.

“*This is the last warning.* We have shown you how you can immediately amend your behaviour, which betrays the interests of the Community.”¹

A feeling of confidence and contentment among the ruling classes is an essential factor in the stability of any social and political system. The German capitalists who have become leaders in their factories, and representatives of the state authorities in the eyes of the people, have lost the self-confidence which characterised them in pre-war days. They do not themselves believe in the stability of the régime nor in the way things are run to-day, but they can see no alternative. They may regard a new world war as the inevitable outcome, but they are mortally afraid of the consequences. When they dare to talk to their friends behind closed doors, they speak of the possibility and even the probability of revolution, and of the end of the capitalist system, like men who feel they cannot escape their

¹ Circular from the National Group of the Clothing Industry.

fate. They are forced to resort to business practices formerly regarded as unfair or dishonest. A firm which is not on a friendly footing with at least one influential state official has no chance of competing against others which have the necessary connections, and so must go to the wall. Business policy is restricted and controlled by the state, but the state provides no economic security except for the few big trusts. There is no guarantee for the security of new investments. There is much state planning, but no national planned economy. The only visible result is the increase in armaments and the growth of militarism. Most capitalists will find it a relief to give up the hopeless struggle, and become a part of the military machine which will tell them what they must produce and how it must be used.

The inflated bureaucracy under the control of the National Socialist Party increases the economic difficulties of the capitalist class. Moreover, state control of prices, foreign trade, raw material, supplies, investments, and so forth, make life extremely irksome, and unpleasant for the capitalists. They dream of the "good old times", when there were no state restrictions or heavy taxation, and when life in general was more interesting and pleasanter because one could talk freely and discuss politics or anything else. Individual liberty is naturally preferred to dependence on the state. There is a strong desire for the end of state control. This hunger for liberty frequently turns even those who suffer no material disadvantages against the Fascist régime.

It might appear as if the Nazi Party had set up a dictatorship over all classes. Many writers on Fascism have come to this conclusion.¹

According to this description, the state bureaucracy represents and defends only the interests of the state or of the party. If this were true, the capitalist class would be opposed to Fascist rule. It is true, as has already been

¹ Otto Bauer, the Austrian Social Democrat, for instance, wrote: "The struggle between capital and labour, in the course of which the bourgeoisie

mentioned, that the Nazis threaten the other capitalist states, and the German bourgeoisie itself, with the victory of "Communism" and "anarchy", if the Fascists lose control of the German state. Hitler used this argument even before he came to power, as, for instance, when he spoke in 1932 to the iron and steel industrialists of the Ruhr, in order to persuade them to contribute to the funds of the National Socialist Party.

The same argument is used to-day. The tremendous cost of maintaining the enormous number of state and party officials is represented as a kind of insurance premium against Communism. However much the capitalists may grumble at the heavy taxation and the dictatorship of the monopolies, it would be suicidal for them to oppose the present system. As Schacht remarked to the discontented manufacturers at the Leipzig Fair in 1936: "We are all in the same boat." The smaller capitalists, threatened by proletarian revolution on the one hand, and the trusts and the state on the other, are between Scylla and Charybdis and the result is the spread of a fatalistic attitude among them. They are precluded by their interests as capitalists from struggling for a democratic régime, however much they may dislike the Nazi régime.

This prevailing mood of fatalism gives a certain strength to Hitler's régime since it leaves the initiative to the state bureaucracy and the professional soldiers.

Chapter 13

THE MIDDLE-CLASSES

A. SOCIAL CLASSES IN GERMANY

THE TERM "MIDDLE-CLASS" MIGHT EASILY BE MISUNDERSTOOD. It usually means the class which according to its economic status stands between the capitalist and the proletarian class. The main characteristic of the proletariat is that it does not own means of production (or capital) and has no security of existence. The middle-class must have either the one or the other to preserve its social position; it must stand above the working-class and below the capitalist class. Under National Socialism, however, there are many middle-class people whose economic status is even lower than that of the workers. There are other middle-class elements who are as badly off as the manual workers, whilst there are some who are better off. The general trend is towards a decline in the numbers of the last named. Most writers who deal with the middle-classes have emphasised the growth of the new middle-classes—doctors, lawyers, engineers, clerks, etc., and salaried employees. It is useful to distinguish a third category, the small rentiers. Income from savings may be drawn by people who still work for a salary or for a wage. The greater these incomes are, the more secure and prosperous the middle-classes. It cannot be denied that large sections of the middle-classes in certain imperialist countries have enjoyed increasing prosperity, and this has had a decisive influence on their general outlook.

Recent social developments in Germany disprove most of the theories current concerning the middle-classes. Marx and Engels wrote in the *Communist Manifesto*:

"The lower strata of the middle-class—the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen

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and peasants—all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which modern industry is carried on, and it is swamped in the competition with the large capitalists, partly because their specialised skill is rendered worthless by new methods of production. Thus the proletariat is recruited from all classes of the population.”

Much has been written to disprove this prophecy. It is maintained that the middle-classes have not disappeared; that new middle-classes have arisen, and that therefore the present reality in no way corresponds to what was foreseen by Marx and Engels as the inevitable result of capitalist development.

G.D.H. Cole, for instance, writes:

“Capitalism created, in its earlier phase, a large new middle-class, who rose from relative poverty to affluence or comfort by the exploitation of the new powers of production. It has, at every stage, swollen the numbers of the professional classes; and it has, in its later phases, created a new class of well-paid salary earners—technicians, managers and administrators who enjoy a high economic standard as the servants of joint-stock enterprise. The creation of the great middle-class is the characteristic social achievement of Capitalism.”¹

Certain particular features of British capitalism have been generalised by G.D.H. Cole and many other economists. But to-day world capitalism is no longer developing along the lines of British capitalism.

According to official statistics,² the working-class in Germany constitutes 46·3 per cent of the total population, salaried employees 17·7 per cent, and individual proprietors and traders 16·4 per cent.³ The overwhelming majority of the last category are generally placed in the middle-classes.

The economic position of the middle-class artisan or clerk who has neither security of existence nor an income above that of a wage earner approximates much more closely to that of the proletariat than to that of the rentier or proprietor who has a large enough income to share in the amenities and pleasures of the upper classes. A German

¹ *What Marx Really Meant*, 1934, p. 50.

² 1933.

³ Employed family members account for 16·4 per cent.

sociologist, Th Geiger, made an analysis in which he placed those lower middle class elements who have no security of existence and whose incomes do not exceed that of manual workers, in the same category as the proletariat¹. He came to the following conclusion

*Class Division of the German population
(Family members included)*

		per cent
Capitalists	574,000	9
Middle-classes	16,026,000	24.5
Proletarians	45,809,000	74.6

Developments since 1932 have led to a further shrinkage in the numbers of the middle-class and to an increase in that of the proletarians.

B THE DISAPPEARANCE OF RENTIER INCOMES

Marx is held to have assumed that proletarianisation of the middle-classes would mean their transformation into wage workers. This is the interpretation of Marx popularised by Kautsky. According to this assumption a proletarian necessarily means a wage worker. In actual fact Marx never wrote anything to warrant this assumption. A man may be a proletarian even if he does not receive a "wage" provided that he owns no capital (in the economic sense of the word), and has no security of existence. Moreover, even an artisan in the modern world is nearer to the proletariat than to the old middle-classes, owing to the negligible value of the tools of his craft which are his means of production, and on account of his absolute lack of economic security.

During the early stages of imperialism many middle-class people were able to obtain security by saving money and buying property or investing it in fixed interest-bearing securities. The growth of banking institutions, of joint stock companies and stock exchanges, encouraged savings. The most striking feature in the development of the middle-classes in Germany is the post-war annulment of most incomes from rentes. This development contradicts all

¹ Th. Geiger, *Die Soziale Schichtung des Deutschen Volkes*, 1932, p. 21.

the statements made by writers who prophesied an increasing share for the middle-classes in capitalist incomes.

Those who attacked "orthodox" Marxism always pointed to the increase in middle-class incomes from investments and the accumulation of savings which were giving relative security of existence to an ever increasing percentage of the population. Eduard Bernstein wrote:

"It is quite wrong to assume that present developments show a relative or even an absolute decline of the number of proprietors (Besitzende). Not 'more or less' but absolutely more, i.e. the number of proprietors is increasing both absolutely and relatively."¹

G.D.H. Cole wrote in the same strain in 1934:

"It has often been pointed out that, whereas Marx often speaks as if the advance of capitalism would be bound to involve a growing concentration of the ownership of capital in the hands of great capitalists, actually throughout the remainder of the nineteenth century there went on a rapid increase in the absolute and relative numbers of those who had a share in the ownership of capitalist industry, and drew 'surplus value' from it in the form of rent or interest or profit."²

The middle-class rentier is usually a conservative who stands for the preservation of the existing social order. He becomes extremely patriotic when he feels that either his country or the existing social system is threatened. Otherwise he is usually non-political. So long as the satisfied rentier is the predominant element within the middle-class a real Fascist Movement cannot develop.

"Unlike the small businessmen, the professional and the artisan, the rentier is the potential adherent of either Fascism or Communism only in most unusual circumstances. For he is essentially a love. of the status quo, and his interests are those of the maintenance of property rights, especially the value of money.

"The rentier group before the world war exerted a greater influence than its mere numbers would imply, for the rentier status constituted the goal of so large a section of the population."³

¹ *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie* (The Conditions of Socialism and the Tasks of Social Democracy), 1909, p. 56.

² *What Marx Really Meant*, 1934, p. 118.

³ *Encyclopædia of the Social Sciences*, Rentier.

G. D. H. Cole wrote of the middle-class rentier:

"By diffusing the ownership of property, not over the whole of society, but over a fraction fully large enough to offset the effects of concentration, it protects capitalism against the massing in hostility to it of all the remaining elements in society, and provides it with a bodyguard of retainers who feel their economic security and social status to be bound up with the continuance and prosperity of the capitalist system. Every shareholder or rentier . . . feels himself menaced by any attack upon it. . . . Thus capitalism, by creating a large body of dependent capitalists, averts the menace of complete proletarianisation of all who are not able to amass enough wealth to gain an effective place in the control of the expanding process of production."¹

The extinction of the middle-class rentier is one of the most striking features of post-war Germany. It is shown by the decline of savings. At the end of 1913 46 per cent of the population had savings. At the end of 1929, when Germany was still relatively prosperous as compared with succeeding years, only 28 per cent of the population had any savings. The average amount of savings had fallen from 802 marks in 1913 to 594 marks in 1929. Taking into account the rise in prices these 594 marks were worth only 387 pre-war marks. The real value of the average savings had fallen 51.6 per cent.

In June, 1936, deposits in the German savings banks amounted to 15,060 million marks.² This is 8,394 million marks, or 42.5 per cent, less than in 1913. Taking into account the higher level of prices the real value was 51 per cent less than in 1913. Even this does not show the full extent of the decline. The banking crisis had led many small investors to put their money in savings banks instead of in the private banks. In addition to this, a greater percentage than before of the cash reserves of the small man is now deposited in the banks. This is proved by the large increase in the deposits of the savings banks and by the fact that the average amount of savings so deposited has fallen more steeply than the total amount of savings.

It is probably a correct estimate that total savings to-day amount to less than one third of the pre-war figure.

The following figures show the trend under the Nazi

¹ *What Marx Peck My Mind*, 1934, p. 122.

² *After a reduction of 25%*, according to the official list of 1936.

régime: Whereas from 1925 to 1932 there was an increase in the deposits in the savings banks of 1,393 million marks annually, the annual increase from 1932 to 1936 totalled only 791 million marks in spite of the increase in industrial production. In 1936 the increase in savings was only 348 million marks.

There is little chance of an increase in savings in the future, not only on account of the depressed condition of the middle-classes, but also because they are threatened with a new inflation and devaluation of the mark. The savings banks have been forced to invest most of their deposits in government bonds and bills, and it is impossible for the state to meet its loan obligations without inflation or devaluation.

Many a member of the middle-class, who before the War could retire after twenty or thirty years of work and live on his savings, can no longer do so at the present time. For example, in the year 1907, 45·7 per cent of the population was gainfully employed. In 1927 the figure was 51·3 per cent. The substantial increase is accounted for by a larger number of women workers and of those in the higher age-groups—those who previously were no longer occupied.

“The number of male persons over 50 engaged in gainful employment has increased by $1\frac{1}{2}$ millions as compared with 1907. More than one-third of the total increase in the male labour force is made up of men in this age-group.”¹

C. THE FATE OF THE OLD MIDDLE-CLASSES OR PETTY BOURGEOISIE

The most important section of the urban middle-classes are “the old middle-classes”—the small-scale producers and traders. There are 3,961,000 independent artisans (about 12 per cent of the population) and over 950,000 small shopkeepers and traders in Germany.

The growth in the number of small-scale producers and traders is not a sign of their prosperity. On the contrary, in pre-war times, with the rise of industrialism the small

¹ Platzer, “The Growth of the Figures for Trade in Germany,” *Annual of Political Economy and Statistics*, 1931, p. 326.

artisans and traders had an opportunity of becoming wage-workers or clerks. They could avoid sinking economically below the wage-workers by giving up their "independence". Since the war the permanent unemployment of many industrial workers has made this impossible, so that many small-scale producers and traders have been forced to continue to exist on incomes lower than those of the wage-earners.

To this inability to find an alternative occupation there was added the competition of large concerns. While production in large-scale industry became centralised in the hands of a few gigantic concerns, there took place an increase in small concerns and simultaneously a decrease in production and trade. Whereas previously ten shoemakers or small traders managed to secure a fair living, now fifteen competitors, with a smaller total turnover, strive against each other.

Only in this way can the astounding results of the German Factory Census of 16th June, 1933, be explained. Compared with the Census of 1925 the number of those engaged in industry was shown to have been reduced by 22 per cent, or by 4 million people. Production itself had been reduced even more. The number of enterprises had, however, increased by 75,000 or 2 per cent. The volume of retail trade decreased 30 per cent—a decline out of all proportion to the decline in prices. The number of retail traders, however, increased by 59,000 or 8.6 per cent. In actual fact the number of new businesses established was considerably greater. Thousands of traders were compelled to close their shops in account of bankruptcy. In spite of this the total number of such concerns rose by 59,000.

"According to the Census of Trades and Factories it would seem that it is in particular the small independent units which show a great increase. From this we can conclude that the increase is very largely accounted for by those who have little capital—small undertakings which owe their existence to the effort made to find some profitable occupation in trade."¹

The small producer can only compete against large-scale capitalist production by means of cheaper labour. He makes

¹ *Political and Social Quarterly*, Cologne, No. 5, 1933.

use of the labour of his wife and children and of apprentices. These work ten or twelve hours a day for a lower wage than any factory worker. These small producers can survive in those branches of production in which labour accounts for the largest part of the total costs of production. In reality these small producers are not independent, but work for the profit of the big capitalist interests which supply them with raw materials and credit, and market their products. The big monopoly interests can exploit them by selling to them at high prices and buying the goods they produce at such low prices that the labour of these lower middle-class elements becomes cheaper than that of factory workers. In so far as the small producers are engaged in making goods for general consumption, their products bring down the general price level, and so the big industrial capitalists are enabled to reduce yet further the wages of their employees.

The extremely poor and intensively exploited independent producers have now become typical of the "independent" middle-classes in town and village. The state helps them to survive by enabling them to obtain the kind of cheap labour which the big industrialists cannot employ. Thousands of children and hundreds of thousands of young persons have to work hard as apprentices or members of the family, without pay.

Take, for instance, the young girl who previously earned her living as an ironer in a small laundry. She used to get a weekly wage of 15 to 20 marks after three months, which is obviously all the training required. In 1934 the government issued a decree stating that in future laundries would count as a new kind of handicraft. The girls who work in them now have to serve a three years' apprenticeship before they are entitled to a weekly salary of 15 marks.

Bakers employ many so-called apprentices. In 1936-37 there were 79,107 baking establishments in Prussia employing 57,988 apprentices. Only 6,000 of the 20,000 boys who complete their apprenticeship have a chance of getting a job as wage-earners at their trade. The remaining 70 per cent will be forced to find a new trade after working three years for nothing.

The usual result of militarisation and an armaments boom is to strengthen large-scale enterprises and trusts, and to weaken the small producers. The small traders and artisans are specially hard hit. The representatives of the artisans' organisations have protested in vain against the small share of war orders allocated to the craftsmen.

"The independent petty industrialists and artisans have perhaps suffered most. It is difficult for them to observe the bureaucratic procedure of obtaining permits and rations, for which large industrial concerns can keep special staffs. They obtain with difficulty, or not at all, the smallest rations of every material from iron to leather. Many have been compelled to liquidate their businesses, and in June 1937, it was learnt that 5,000 craftsmen, alleged to have lost their ability to earn a living, had agreed to become wage-earners.

In the same way the petty retail traders are suffering. An official journal announced last winter that 700,000 small businesses of this kind would be compelled to wind up. In their case it is due to limitation on profit-margins and numerous restrictions."¹

The Nazi Press claims that the position of the small producers and shopkeepers has improved as a result of the decrease in unemployment and the increase in consumption. But it is only the consumption of some cheap standardised goods of inferior quality which has increased. For instance, in 1935-36 the consumption of cigarettes was about the same as in 1933-34, but the sale of those costing more than 5 pfennigs each fell by 55 per cent. The number of tobacco retailers rose from 492,000 in 1924 to 631,000 in 1932 and to 634,000 in 1935, in spite of there being no increase in sales.

The lowered standard of living of the middle-classes can be illustrated by the example of taxis. Under the Nazi régime the number of taxis plying for hire in Hamburg fell from 1,553 to 713, in Altona from 243 to 110, in Berlin from 6,000 to 3,000.² Many taxi-drivers got work in the armament factories.

According to the official figures, retail trade sales have increased, but if account is taken of the rise in prices, this ceases to be true.

¹ A. Parker, *The Economic Outlook of Germany*, *Lloyds Bank Monthly Review*, July 1937, p. 359.

² *Statistisches Jahrbuch für das Deutsche Reich*, 1936, p. 105.

WHO IS SATISFIED WITH NATIONAL SOCIALISM?

Retail Trade Sales (according to I.f.K.) (in milliards of marks)

	1929	1932	1936
Foodstuffs	15.5	10.5	12.3
Textiles and Clothes	10.0	5.9	7.6
Furniture, Household Articles, etc.	4.6	2.4	3.6
Cultural & Luxury Articles	4.6	2.8	3.1
Coal	1.7	1.1	1.2
	<hr/>	<hr/>	<hr/>
	36.6	22.7	27.8

From 1932 to 1936 retail trade turnover rose by about 19 per cent.

The state refused to allow the small shopkeepers to increase prices in proportion to the increase in wholesale prices. The burden of the increased costs of production was placed on the shoulders of the weakest competitors. The Propaganda Office of the N.S.D.A.P. and of the Labour Front in September, 1936, prepared the text of speeches for their propagandists dealing with the discontent of the shopkeepers.

“It was necessary to increase the prices of certain products, e.g. agricultural products . . . at the expense of the retail trade. Therefore the income of the retail trader, especially of the foodstuffs branch . . . was considerably reduced.

“The German retail trade, and especially the foodstuffs branch, had to bear heavy sacrifices and it will have to continue to do so in the future.”

Since the introduction of state control of the production and distribution of foodstuffs, the small traders have become more dependent on the good will of the bureaucrats. Those who are not “politically reliable” cannot get supplies and have to close down. In the autumn of 1936 the state bureau for distribution of food supplies (Reichsamt für Nahrungsmittelverteilung) compelled 2,000 Jewish traders in meat, fats, and eggs to go out of business. Fifty Jewish grain dealers in Berlin were similarly “liquidated”. Many “Aryan” shopkeepers are little better off.

The continued existence of these small capitalists is to the interest of the big industrialists and monopolists. In periods of widespread unemployment many workers are compelled to try and start as small producers or traders.

If they succeed in doing so, they keep themselves alive without any state expenditure for their relief. The cost is borne by the middle-classes, whose average income is thereby reduced. The *Frankfurter Zeitung* admits that the condition of these middle-class elements has deteriorated under the National Socialist régime.

"The conditions for handicraftsmen showed a relative steadiness in spite of the crisis. This steadiness did not occur on account of the economic 'elasticity' of the small shop. The labour of the proprietor himself is the main factor in handicraft production. He is able to improve his material position by working overtime. . . . He has also been assisted to survive by a reduction in his standard of life and that of his family, who work for him."¹

The existence of a large number of lower middle-class people is also an asset to the authorities in that they constitute a huge reservoir of human labour power which can be utilised in case of war or for a sudden increase in production.

Many small traders and craftsmen were able to enter industry, on account of the demand for labour created by German rearmament. For instance, the total number of retail traders was officially estimated to have declined from 830,000 in June, 1933, to 620,000 in the spring of 1936.² Since the shortage of skilled labour was limiting the production of war materials, the leader of the Social Department of the German Handicrafts Organisation proposed in February, 1937, to compel 700,000 independent craftsmen to become wage earners by decree. The petty bourgeoisie cannot look upon such a change in its status with satisfaction. In any case, the armaments boom will not last for ever. When it comes to an end the dismissed workers will again try to get a livelihood as independent craftsmen and small shopkeepers, with even less prospect of success than in the past. Although the state forces many artisans in the metal and building trades to become wage earners, and although they frequently earn more than before, many of them prefer to stick to their "independence", not because they prefer it, but because they do not believe the armaments boom can last and are afraid of what will

¹ F.Z., 6th June, 1935.

² F.Z., 17th May, 1936.

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happen to them when they lose their jobs. The state gives no guarantee of the permanency of the factory employment offered. The government has issued instructions to the Labour and Welfare offices to give no assistance to any independent artisan who has ever worked in the metal and building industries or in agriculture. Hunger is to compel him to return to work in the factories or for the large landowners.

Up to 30th June, 1934, the middle classes had retained their illusions concerning "National Socialism". Until then the Government had prohibited the establishment of new shops. However, this had not strengthened the position of the small traders, since there were already far too many of them. The central organisation of the retail traders sent an appeal to the Government in which they demanded:

" . . . No return to complete industrial liberty. . . . The institution of a Trading Card, possession of which should alone give the right to run a retail store. These cards to be granted only to those who can fulfil certain conditions. . . . Control of street traders."

Before Hitler came to power the National Socialists had won the leadership of the organisations of the middle-classes. They had created the "National Sozialistischen Kampfbund der Deutscher Mittelstände" (National Socialist Fighting Association of the German Middle-Classes). When the middle-classes grew discontented at the failure of the Nazis to fulfil their promises to take action against the trusts, banks and big stores, this organisation was converted into the N.S. HAGO with "authoritarian leaders" appointed from above. The members had henceforth to obey the orders of the Government and a watch was kept on the dissatisfied.

Nevertheless many of the leaders of lower rank represented the views of the membership and the *Innungen* (a kind of guild) of the artisans (shoemakers, tailors, bakers, etc.) were still in existence. These maintained the traditions of the medieval guilds with their old emblems and banners. The leaders of these guilds are now also appointed from above, and even the N.S. HAGO has been suppressed.

The head leader, called "Crafismaster of the Reich" (Reisehandwerksmaster), is appointed by the government, and he in turn nominates the leaders of each guild.

Since the guilds and corporations no longer fight for their interests, the small traders and craftsmen have lost all interest in them. In fact, the official leaders would be unable to address meetings of their followers were not the latter compelled to attend. The following letter circulated by the Master of the Building Trade Guild to the members is typical of many:

9th December, 28.

"To the members of the Builders' Guild!

"My artisan colleagues!

"After yesterday's meeting of the guild I have to state that the attendance of the members was not good. It is disgraceful and undisciplined for members to make use of the darkness of the film show to leave the meeting. . . .

"In order to stimulate the consciousness of each member I announced the following decree at yesterday's meeting:

"1. My previous decree of the 12th November, 1934, regarding punishments for inattendance at guild meetings is amended; fixing a fine of 5 marks instead of 3 for failure to attend the meeting.

"2. The fine of 5 marks fixed by the decree of the 12th November, 1934, for failure to attend when summoned is increased to 10 marks. This decree becomes effective immediately.

"THE SUPREME MASTER."

All the corporations and guilds have to bear huge expenses for the upkeep of the bureaucratic machine and the salaries of the Leaders and Guild Masters and their secretaries. Early in 1937 the shoemakers of Hirschberg in Silesia openly rebelled at having to pay to their corporation a contribution four times greater than before. The Guild Master had ordered his own salary to be increased from 100 to 900 marks.

The function of the corporations, or guilds, is not to abolish competition and guarantee the livelihood of their members, but to secure privileges for the small minority of politically reliable persons who have connections with the state bureaucracy. Those who are politically unreliable are subject to all sorts of discrimination and

expelled from the guilds. Early in February, 1937, Ley, the Leader of the Labour Front, issued a decree concerning credits to young craftsmen, in which it is stated that: "The candidate must submit a statement by the Party Leader of his unobjectionable political record."

Every guild member must pass a test (*Meisterprüfung*) for which he has to pay 400 marks. It is not enough for him to have expert knowledge of his trade. Those candidates who are ignorant of the names of their district and local leaders and of their work for the National Socialist movement or of other details of Party history, are refused membership.

By the autumn of 1936 the discontent of the lower middle-classes had increased to such an extent that the government liquidated their old guild organisations (*Innungen*), in direct contravention of the Nazi programme, according to which the small producers and their guilds were to be assisted and preserved. The former guilds were transformed into subsections of the Labour Front. The artisans made an effort to defend their old associations. At the July, 1936, Congress in Berlin of the "*Reichsbetriebsgemeinschaft*" Schmidt, the "Craftsman of the Reich," and a former member of the Nationalist Party, first tried to calm, and then to threaten, the sub-leaders and delegates who were enraged at the plan to place them under the direct control of Dr. Ley and his Labour Front. This meant in effect placing them under the control of Dr. Schacht, who had achieved the actual control of the Labour Front through the "reform" of 1935, by which the latter had been amalgamated with the organisations of bankers and industrialists. Schmidt said:

"I shall dismiss from their posts without compunction those who break the peace. What is to become of the Reichstand or the Reichsbetriebsgemeinschaft is a problem which is not to be discussed by you. We should calmly leave it to the Leader to decide."

Dr. Ley made clear what was to be the new policy towards the petty bourgeoisie. When the leader of the artisans tried to intervene on their behalf, Dr. Ley said quite frankly; "The independent artisan who cannot compete against the modern factory or trust has no right to exist in the

Third Reich. He can become an industrial worker." When Schmitt and Ley failed to reach an understanding on the subject of the liquidation of the Guilds, they went to Schacht for a decision. This was at the end of 1936. Schacht, of course, gave his full support to his own subordinate, Dr. Ley.

Another measure which hits the petty bourgeoisie hard is the enforcement of compulsory bookkeeping for all small traders and independent artisans, in order to control all purchases and sales. Previous to this they could evade the full burden of taxation, but now this has been made impossible. Thus actual taxation has been increased. What this has meant in practice can be illustrated by the example of the restaurant keepers of Milspe, a small town in Westphalia. In 1936 they had made great preparations for the yearly carnival, the most popular of all festivals. As soon as they had closed their shops on the evening of the carnival and were about to count the day's takings, the taxation official appeared, accompanied by two policemen, and seized the money in the till.

It depends largely on local conditions and on chance personal connections whether a man is protected from competition or is ruined. Accordingly, the greater part of the petty bourgeoisie lives in constant uncertainty and dread. This drives the individual to make every effort to get in with the local Party authorities, to assist them and to avoid incurring their displeasure. When he fails or when his material circumstances deteriorate, he blames the attitude of the local leader, or the latter's friendship with his competitor, not the system. The bureaucracy, by giving a concession here and withholding it there, plays off one man against another, and so takes advantage of local antagonisms.

D. THE FATE OF THE NEW MIDDLE-CLASSES

The economic decline of sections of the middle-class was no rare occurrence even before the war. The victorious advance of the machine displaced the craftsman and the artisan, and facilitated the growth of large-scale industry. In pre-war days such crises in the life of the middle-class

were not permanent; the further existence of the middle-class itself was never in jeopardy. The small-scale producers and traders supplying individual needs were even able to grow in numbers, in particular, in the luxury trades. But the situation was not desperate even for that section of the lower middle-class which had been displaced by machinery. High school education opened up the path into the new middle-class professions: doctors, engineers, chemists, lawyers, etc. The concentration of production and the extension of the state apparatus gave rise to an increasingly large administrative class. A large number of promoted officials of the new middle class found their places in such occupations. Although individual advance was thereby rendered impossible for the majority, or at any rate, placed within very narrow limits, certainty of existence seemed to be assured for a lifetime. An ever increasing number of the middle-class youth preferred this assured middle-class position to the uncertain hazards of an independent or entirely proletarian existence. The rentier spirit appeared to seize ever greater sections of the middle-class, and large-scale capitalist development seemed to be providing it with a material basis.

The Great War put an end to this development for ever in so far as Germany is concerned. Ever since the war all sections of the middle-class have been threatened with extinction, and since the world crisis their struggle for existence has become desperate. Like rats on a sinking ship, the petty bourgeoisie strive in desperation to secure a footing. They swarm into the professions in which there is still some certainty of livelihood. Nearly half the Berlin taxi-drivers are former middle-class people—bank and stock exchange clerks, engineers and architects.

An increase in the number of doctors, technicians, artists, and so forth, may be an indication of social advance and increasing cultural needs. It might be concluded from this that the cultural level of the population had risen most rapidly in the years of intense crisis. The number of doctors increased by 9 per cent between 1925 and 1927, and by a further 11 per cent between 1927 and 1931. The number of dentists increased by 18 per cent and 14 per cent; of

state certified nurses by 55 per cent; and of midwives by 122 per cent. Yet most mothers scarcely knew how to secure enough to eat for their children. The free professions expanded whilst social means and cultural expenditure declined.

All the new professions were also overcrowded. There was chronic, although partly concealed, unemployment amongst the middle-classes. Short time in industry was reflected in the empty consulting rooms of the doctors and the empty shops.

The driving out of the Jews from middle-class professions had little effect. A few thousand "Aryan" lawyers and doctors in the larger towns benefited, but the situation of lawyers and doctors as a whole has not improved. The overcrowding in these professions has been estimated at between 25 and 40 per cent. The percentage of Jews in these professions was at most 4 per cent.

In order to assure their livelihood, the Nazi Lawyers' Association demanded that it should be made compulsory for every plaintiff and defendant in suits involving a sum of 300 marks or more to retain the services of a lawyer. The difficulties of the lawyers, in spite of the driving out of the Jews, are eloquently revealed in this demand.

Men and women who have studied at the universities for four, five or even six years, are little better off for the most part than workers and clerks. A university man with a high degree may have a chance of appointment in the army, but in civilian life his position is little better than that of the uneducated. According to the figures of the Doctors National Association (*Kassen Aerzliche Vereinigung Deutschlands*), 33 per cent of its membership have a yearly net income of less than 3,000 marks (corresponding to £200 in England); 13.3 per cent have 3,000 to 4,000, and 12.5 per cent, 4,000 to 5,000.¹ This means that about half the doctors in Germany earn no more than skilled workers. Many earn even less. The same applies to those working at hospitals and clinics; according to the same authority, these receive on an average no more than 100

¹ Figures published in *Soziale Praxis*, 23rd October, 1936. It is calculated that doctors have to spend half of their gross income on professional expenses.

to 120 marks a month. When not living in, they earn only 200 to 250 marks a month, which leaves them about 150 to 190 after paying taxes and contributions. Yet thousands of doctors apply for posts at the hospitals because they cannot earn a living in private practice. At the end of 1936, seventy doctors left East Prussia because they could not earn a living there. Even the Nazi periodical *Sociale Praxis* had to admit that “. . . a considerable number of doctors after eight or ten years' study are in receipt of incomes about equal to those of skilled workers.”¹

Many professions depend on the existence of a large class of rentiers and other middle-class elements well enough off to maintain a high standard of culture. Their disappearance destroys the economic basis for many “new” professions. The general trend has been accentuated by state policy. Whereas formerly the sons and daughters of poor parents were able to study by means of state grants and cheap educational facilities, to-day the state needs all its revenue for armaments and has cut down expenditure on higher education. The decline in high school education and university training is illustrated by the following figures. In Berlin the number of pupils attending high schools fell from 85,000 before Hitler came to power to 57,000 in 1936, the number of schools from 828 in 1928 to 700 in 1936, with the result that all classes are more overcrowded than ever. The number of pupils who reached matriculation standard in Prussia fell from 25,000 at Easter, 1932, to 12,500 at Easter, 1936.² In any case, general economic insecurity compels parents to train their children to earn their own living at an early age. There is a decline in the attendance at secondary schools (*Gymnasien*). Many secondary school teachers used to be amongst the most fervent supporters of the Nazis but they are now bitterly disappointed. Many teachers to-day with degrees earn no more than 100 or 120 marks a month equal to about £5 or £6 in purchasing power. Others are even worse off. Many trained teachers are unemployed but receive no relief; finding it impossible to live in dependence on elderly parents, they take jobs as typists or clerks or

¹ 23rd October, 1936.

² *Zeitschrift des Nationalsozialistischen Lehrerenddes*, December, 1936.

in other occupations where their knowledge is entirely wasted.¹

Even the lawyers, who reaped the greatest advantage from the persecution of the Jews, have not escaped a further worsening of their already wretched condition. *Sociale Praxis* reports:

"We must mention the fact that the changes in the profession due to the racial laws were rapidly annulled by the great number of applicants. . . . The income of young qualified men is usually low."

A statistical survey of lawyers' incomes showed that 41 per cent earn less than 3,000 marks a year. Rent and professional expenses and taxes have to be paid out of this. What remains is frequently less than the average wage of a worker. Even engineers, who have the best chance of employment, do not earn more than 180 or 240 marks, after deducting taxes and contributions.

It is clear that the incomes of professional men are no higher than those of skilled workers, and sometimes even lower. Yet their expenses are heavier, and they have to spend more on clothes. They have no greater security than the working-class, and are frequently without work and forced to accept any kind of job. The minority which benefits from their close association with the Party and the bureaucracy are extremely reactionary; the worse the situation of the majority, and the greater the general discontent among the middle-classes, the more the privileged minority cling to the existing system, since they know that their own livelihood depends entirely on the Nazi régime.

"The old and the new middle-classes have been deprived of their capital and income, and therefore they no longer provide a source of national capital accumulation. Proletarianisation of the middle-classes goes on incessantly. At first it produced a stronger anti-proletarian movement, in contradiction to socialist hopes. It has, however, driven the majority of the German people into a more conscious hostility to the capitalist system."²

¹ See article in *Sociale Praxis*, 23rd October, 1936.

² Winkemann (National Socialist) "Struktur des Deutschen Wirtschaftslebens," in *Die Deutsche Agrarpolitik*, Vol. II, 1935, p. 27.

E. THE OUTLOOK OF THE MIDDLE-CLASSES

In pre-war days the greater part of the middle-class hoped to improve their standard of living and to rise into the ranks of the upper-classes. The outlook of the middle-classes to-day has radically altered. One has to understand the difference between the reactions of the middle-class to its ruin to-day and its reactions at an earlier stage of capitalist development, when the competition of the new machines was ruining many small manufacturers and artisans. In that earlier period those who did not become wage earners fought to retain their social status and were willing to fight in defence of the system of private property. They longed for a return to their old privileged position as members of the medieval guilds, but this did not mean that they were against the private ownership of the means of production. They had not lost hope of climbing higher in the social scale, of saving money and becoming capitalists in the modern sense. But the German middle-classes in the post-war period, and in particular since the world economic crisis, have lost the illusions and hopes of the nineteenth century.

The ruin of the middle-classes is widely recognised as the cause of the success of Nazi propaganda from 1930 to 1933. Therefore it was argued that the ruined or improverished middle-classes held fast to their old ideology, that they would defend the system of private property, although their economic status was now no different from that of the working class. They would become more reactionary the worse their conditions became, and they would become more and more nationalistic as the economic crisis was intensified. It seemed as if this theory was justified by the course of events in Germany. Hitler came to power with the support of the middle-classes who were his most enthusiastic followers. They were the most ardent fighters against the Jews and against all who doubted their Leader. They took the Nazi programme seriously, and at the beginning constituted the mass basis of Fascism.

If it were true that the middle-classes would become

more and more reactionary as their conditions worsened, then the Fascist régime would undoubtedly be extremely strong. Any rising against it would be doomed to failure, since the armed guards of the Fascist dictator could always count upon the support of millions of middle-class people and have large reserves of young men to call upon. This view is clearly expressed in the following passage from F. L. Schumann's *The Nazi Dictatorship*

"The petit bourgeoisie, despite its betrayals and frustrations, is indissolubly wedded to the ideology of property and profits.

It will probably remain loyal to the bitter end to any régime committed to the championship of profit and property, of morality and religion, of the Church and the home. Even in the event of its ultimate reduction to the level of the proletariat, its own symbolic definition of itself as a class superior to workers and alien to the plutocracy, at least in aspiration, will probably persist for decades. No historical instance has yet been recorded of the lower middle classes being converted to the cause of proletarian revolution."

Some economists had already pointed out that the new middle-classes—clerks, professional men, etc., in the employment of the trusts and large enterprises—could not be opposed to a planned economy and defend the system of private property, since they have no longer any economic security and must welcome a planned economy in place of the competitive struggle. But to-day even the old middle-classes are no longer enthusiastic for the old competitive private property system. They long ago lost most of their savings or investments. They hate the big capitalists and the trusts and banks, but they no longer yearn for a return to a society without machines, factories, or banks. Although Fascist propaganda made use of some such slogan, the idea never impressed many people. The middle-classes are tired of the competitive struggle. It is this struggle which has expropriated them, not a proletarian dictatorship. They want some kind of state socialism, and this is why they listened to the Fascist propaganda for a "Guild" or "Corporative" state which would give them security and control the trusts and banks. They regarded the Fascists as better socialists than the working-class, which had disappointed

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them and proved itself unable to fight effectively against the capitalist system. For after the world war and the breakdown of German capitalism, almost the entire middle-class had turned socialist. In 1923, when all their savings had been wiped out by the inflation, they had expected revolutionary action by the working-class to establish socialism, and would not have resisted it. In 1933 they hoped that Hitler would do what the working-class had failed to do, and gave him their support in the belief that he would use his power to institute social reforms, and save them by curbing the big capitalists and the trusts. This is what won their support for Fascism, not its propaganda against the Versailles Diktat and for the re-establishment of German national independence. The principal Fascist slogans at that time were not anti-socialist; on the contrary, they promised to expropriate the big capitalists and give the middle-classes security. It was only later, when these promises were not fulfilled, that Fascist propaganda concentrated primarily on nationalist slogans.

The Fascist order has established fixed prices for most goods which the independent middle-classes have to buy and sell. This means in practice that the state is directly responsible for the tribute to the big trusts, and for the lowered earnings of the middle-classes. State control is so strict that the chances which previously existed of making an extra profit, or of escaping the burden of taxation, or of transferring to another occupation, have disappeared.

There still remain important distinctions between these middle-classes and the wage workers.¹ The workers are more united and collaborate daily in hundreds and thousands, while the middle-classes are mostly individual workers—except the state bureaucracy. This latter social stratum has grown, forming a new parasitic middle-class—the Nazi officials, the Party bosses, the *nouveaux riches* who

¹ The clerk or office girl, however, was as poor as the factory worker, and could similarly be dismissed from employment at any moment. He or she was always, in fact, a proletarian. It is a mistake to write of the "black coated proletariat" as belonging to the middle-classes. It is often emphasised that the outlook of the office worker is that of a petty bourgeois; that he wants to be something better than a mere proletarian. But not wanting to belong to the proletariat does not alter one's social status, however important the question of tradition and illusions may be.

have made a fortune by taking bribes from capitalists or by using their influence in the state to further their private interests. No wonder that all the rest of the middle-class bitterly hates the new state bureaucracy. Except for those who work in state enterprises, the workers are still exploited by the private capitalists. The old and new middle-classes, however, are directly exploited by the big trusts and monopolies and by the state (high prices for raw materials—high taxation). The new Nazi state bureaucracy is the direct representative of the new system of exploitation. These Nazi bureaucrats are an element in the population who have benefited economically from the new system. The Nazi bureaucrats of higher rank, who formerly often belonged to the ruined middle-classes, or even to the unemployed, draw high salaries, they are able to buy motor-cars, new houses, and all the other modern luxuries, while the rest of the middle classes have been ruined. These representatives of the state live on the earnings of the middle-classes and defend the system.

National Socialist writers often express admiration for "the Asiatic (especially Japanese) system of family life," and the productive system in Japan which is so largely based on the petty bourgeoisie. These artisans and small producers work very hard for less than the wage of a worker. They form a huge reservoir of man-power for industry and for militarism. Capitalism needs at present a much greater reserve of man-power than previously—for the sudden increase in industrial production in case of war. The middle-classes keep in existence a great reserve of man-power whose maintenance does not cost the state anything. On the contrary, these middle-classes are paying a tremendous tribute to the big monopolies and to the state.

F THE PEASANTRY

The peasants constitute the most important middle-class element in Germany. Their social and economic status, is quite different in the southern and western parts of the country from that prevailing in Eastern Germany (Ostelbien). Whereas in the former territories the power of the landowning aristocracy was mostly broken, first by

the peasants wars of the Middle Ages and then under the influence of the French Revolution, in East Germany the great landowners, the Junkers, maintained their dominant position.

It has already been noted how, after the defeat of Prussia by Napoleon (1806-07), the Prussian army leaders tried to emancipate the peasantry, believing that if they owned their farms they would defend their fatherland. These progressive army officers were backed by a section of the Junkers, who, influenced by the bourgeois "Aufklaerung" conception of the time, were striving to clear the ground for that capitalist development of Prussia without which they realised national independence was impossible. The progressive elements amongst the landowning aristocracy wished to see their property transformed into capitalist property, and were ready to give up their feudal privileges in return for compensations which would establish them as a capitalist class. Hence they were ready to give personal freedom to the peasantry. They strenuously opposed the popular democratic movement which they feared would abolish feudal privileges without compensation.

The king of Prussia failed to implement the promises he had made during the campaign against Napoleon. The reactionary elements again became powerful, and the agrarian reforms were not carried out.

The emancipated peasantry had to pay heavily for their newly won freedom. Large numbers of them found themselves at once in debt; many peasants were compelled either to give up or to sell their land. Over 60,000 peasants were economically liquidated and many large landowners were enriched. A section of the peasantry was, however, able to reap advantages from the rise of capitalism. Industrialism did not destroy the small-holding peasantry, in fact its numbers increased. Working their small farms with the labour of their own families, the small peasants were able to survive in competition with the big landowners who employed hired labour.

In western and northern Germany many peasants modernised their agricultural technique, and concentrated on the production of "finished" products, whereas the

Junkers of East Germany took no advantage of the new technical inventions. Instead they relied on the state subsidies which assured them of large incomes.

Small-holders near the towns competed successfully by taking advantage of the rising standard of living which industrialisation was bringing to the urban middle-class and to the better paid workers. There was an increased consumption of animal products and vegetables as against rye bread and potatoes. A new specialisation developed amongst the farming population, corresponding to similar developments in industry. The big landowners became the suppliers of the "raw materials" of agriculture—cereals, potatoes and fodder—whilst the small peasant proprietors produced eggs, poultry, milk, vegetables and pork. The big agrarians, though forming only 11 per cent of the farming population own 37.9 per cent of the cultivated land, and account for 28 per cent of the total production of wheat and rye, 32 per cent of potatoes (for eating) and 15 per cent of the fodder.¹

There are more than three million persons in Germany occupied in agriculture. Amongst them are 160,000 large landowners with more than 200 hectares, and 834,000 owners of such small properties—0.5 to 2 hectares—that they cannot make an adequate living from the land and seek to supplement their incomes by subsidiary occupations.² Many are seasonal workers or engaged in domestic industry. The true peasant class consists of about 1,852,000 households owning 2 to 20 hectares, and 335,000 medium or large proprietors. Naturally this is only a rough division since the value of land depends on fertility and location as well as on extent.

Is Germany overpopulated? Overpopulation is the usual argument used by German, Japanese and Italian imperialists in order to prove their need of territorial expansion. Freda Utesy in her book, *Japan's Feet of Clay*, has clearly demon-

¹ Compare Dr W. Claus *Der Bauer im Umbruch der Zeit* 1935.

² The Government Statistical Department says of the small producers: "These 116 farms under 2 ha cannot in general be counted as independent agricultural farms and the income from them is not sufficient for a family. But in the present economic situation many of them constitute the only source of income for their proprietors."

Statistisches Reichsamt, Sonderheft 1934 p. 37

strated that Japan's so-called "overpopulation" problem is due to her failure to abolish feudal relations on the land, a failure which means to-day primitive technique in agriculture, a narrow home market, and a peasantry always on the verge of starvation through having to pay half or more of the produce as rent in kind to a million parasitic landowners, and because of their oppression by the great family trusts which control the chemical fertiliser supplies. The landowners in their turn for the most part cannot develop into capitalists on account of the heavy burden of taxation for armaments, the narrowness of the home market and the centralisation of capital in the hands of the monopolists. They become the driving force of Japan's military imperialism. In Germany, where, in contrast to Japan, capitalist methods have been introduced into agriculture, the similar failure to expropriate the landowning aristocracy by a bourgeois revolution means to-day that many cultivators are hungry for land because a few proprietors possess so much and because of the exactions of the state and the monopolists.

Fascist propaganda inveighs against the "land scarcity" and asserts that Germany's lack of colonies is responsible for all the peasants' miseries. Yet there is plenty of land in eastern Germany which could provide farms for hundreds of thousands of peasants.

The small peasants form 53.2 per cent of all agricultural producers and own merely 8.5 per cent of the agricultural area. The big agrarians on the other hand—1.1 per cent of all agricultural producers—possess 37.9 per cent of the agricultural area.¹

In Germany, most agricultural producers are proprietors, not tenants, of the land they cultivate. There is a greater division of labour and a far more modern system of cultiva-

¹ *Division of Agricultural Property*

	<i>Number of agrarians</i>	<i>per cent</i>	<i>Agricultural area as percentage of total area</i>
		<i>per cent</i>	<i>per cent</i>
Peasants with tiny holdings (0.5 to 2 ha.)	834,014	27.4	2.3
Peasants with small holdings (2 to 5 ha.)	787,526	25.8	6.2
Peasants with medium holdings (5 to 20 ha.)	1,069,710	35.1	25.7
Peasants with large holdings (20 to 100 ha.)	321,567	10.6	27.9
Agrarians (over 100 ha.)	33,831	1.1	37.9

tion than in Japan. Many small agricultural producers, especially in western Germany, use much fodder bought on the market to produce agricultural "finished goods". This has resulted in a new dependence on the big agrarians who supply fodder. This dependence, as well as the burden of taxation, has increased considerably under National Socialism.

The German peasantry, in particular the small producers who sell specialised produce to the towns, have since the World War been as hardly hit as the urban middle-classes. Their position has in some respects been worse, since they have had even less chance of transferring into other occupations. In the early post-war period the agrarian capitalists were in an advantageous position. Food was scarce and inflation had wiped out their debts. For the first time in the history of German capitalist agriculture the agrarians were solvent. But a few years later their debt burdens were even heavier than in 1913. The total amount of their debts was less, but the rate of interest was higher. During the years many million marks were loaned to the agrarians. This tremendous sum was partly invested in new machinery and in rationalising agriculture, and partly used to balance losses. Like the industrialists, the agrarians went on hoping that general industrial prosperity would increase the effective demand of the home market. Higher import duties were to put the agrarians in a privileged position and enable them to raise prices. Their hopes were doomed to disappointment when the world crisis supervened upon a new international agrarian crisis. The price of agricultural products fell on the world market whilst the home demand fell owing to the industrial crisis. The agrarians found themselves in a position in which they could no longer even meet their interest payments.

The ruin of the lower middle-classes and the decreased incomes of the middle-class, together with the poverty of the working-class, produced a market crisis which hit the small producers. The big agrarians obtained huge subsidies and so survived. The history of the "Osthilfe"—the state subsidy given to the big landowners of Eastern Germany under Hindenburg—is well known. The big

agrarians managed by corruption and intrigue to get the main share of the state subsidies. When General Schleicher, the Chancellor, exerted pressure upon the Nationalists in January 1933 by threatening to publish some of the facts about this scandalous corruption, Hindenburg immediately dismissed him and appointed Hitler as Chancellor. Under Hitler disclosure has been forbidden. The Junkers have once more been rescued.

The militarisation of Germany favours the big agrarian interests. The lowered standard of living in the towns, and the existence of a large army, means an increased consumption of grain and potatoes, and a decline in the consumption of eggs, milk, vegetables and other specialised products.

The state's policy, both before and after the advent of Hitler, has been to prevent the fall of grain prices and so safeguard the existence of the big landowners.¹ Their home market was enlarged by preventing the import of cheap fodder and so compelling the small farmers to buy fodder from them at high prices. Thus they were able to reap a double advantage by selling fodder at high prices to the small producers, and undercutting them on the market by themselves undertaking specialised farming and raising chickens, pigs, etc. with their own fodder.

The Nazis had promised to save the peasantry, and when they spoke of "blood and soil" and of the peasantry as the backbone of the country, the peasants imagined this would mean higher prices for their produce, lower taxes, and cheap credits. The peasants have been more greatly disappointed than any other section of the bourgeoisie by the advent of Fascism. They have been unable to raise the prices of their produce to correspond to the increased prices they have to pay for fodder. The increase in their costs of production is much greater than would appear from the official statistics, for the cheaper sorts of fodder

¹ German import duties (per 100 kgs. in marks):

	1913	1926	1932
Rye	5'00	3'00	20'00
Wheat	5'50	3'50	25'00
Fodder barley	1'30	1'00	18'00
Oats	5'00	3'00	16'00

which were formerly imported cannot be obtained at all to-day, or can only be obtained in small quantities so that more expensive raw materials have to be used in the production of eggs, chickens, and dairy products.¹

One consequence of this is the larger percentage of grain kept as fodder for cattle and as poultry feed by the producers instead of being sold on the market or to the flour mills.

"The fact that fodder supplies have been limited for more than two years has led to a cessation of free exchange of different grains on the market. The individual farm is consuming its own produce. It feeds its horses with barley, its pigs with wheat and its cattle with oats when it has a surplus of these. It will be difficult to reduce to a minimum this tendency to "farm autarchy," with its unfavourable effect upon the technique of feeding."²

rise of a prosperous middle-class. The small peasants are compelled to produce more potatoes and corn instead of pigs and poultry, but they cannot compete with the big agrarians in these branches of production. The new state policy makes the big agrarians the main suppliers to the army, while the civilian population depends largely on the potato and corn production of the peasantry. The government is setting the peasantry and the town population against one another by saying that the peasantry is responsible for the dearth of supplies. At the same time the political pressure of the dissatisfied town population compels the state to prevent a rise in prices of agricultural products corresponding to the increased costs of production.

The insufficient supplies of essential foodstuffs in the industrial centres has forced the government to institute state control and this has entailed setting up a huge bureaucratic apparatus. There are National State organisations (Reichstellen) for grain, eggs, cattle, meat and dairy products, oil, fats, horticultural products, beets and sugar. These organisations purchase foreign products and supply the home market with them when necessary. They establish reserve stocks for military reasons and this entails huge losses because many of the stored supplies go rotten. Home producers may not sell their produce unless they have first offered it to the state organisations. The latter are not, however, obliged to purchase what is offered to them. Frequently they purchase huge quantities from the big agrarians to prevent a fall in prices, and pay the full price for produce of inferior quality. The state bears the loss. The peasants are forbidden to produce "finished products" e.g. butter, themselves, in order that state control may be strengthened. State control is influenced by military considerations. The farmers who live near the industrial centres have to supply the latter. There is no minimum price for tinned foods so that the army may obtain supplies as cheaply as possible.

This new state control and its huge bureaucratic apparatus is extremely unpopular amongst the producers. When in the past private traders, who were often Jews, bought

the agricultural produce, it was easy for the Nazis to put the blame for low prices and small gains on these "unproductive" middlemen. But to-day the state itself fixes prices and is the largest buyer, and itself pockets the middleman's profits. Yet the state's finances do not benefit since this bureaucratic apparatus of control and distribution eats up all the profit for its own maintenance.

The difference between producers' and consumers' prices was not more than 25 per cent to 33 per cent under the old private trading system. To-day, under Fascism, the prices paid by the state to the peasants are 50 per cent to 70 per cent lower than the retail prices in the towns. At the beginning of 1937 the peasant was receiving 0.96 marks per kilogram when he sold a live pig, as against 1.10 to 1.20 marks in 1932. But the retail price of pork was 2.20 to 3.00 marks per kilogram in 1937 as against 1.60 to 1.80 marks in 1932. The producer's price had declined about 16.5 per cent, but the consumers' price had risen 37.4 per cent to 66.6 per cent. Again the peasant now gets 42 per cent to 78 per cent less for his milk whilst the consumer is paying more than before.

The following figures show what the state is paying to the peasants as against the retail price in the towns:

	Price paid to the Producers (in pfennig)	Retail price (in pfennig)	Difference per cent
Milk (1 litre)	7-12	26	+116-270
Eggs (each)	6-8	14	+133-189
Beef (1 Kg.)	36	140	+261
Pork (1 Kg.)	46	160	+248

The small farmer bears a heavier tax burden than before, as well as having his income more strictly controlled. A tax of two marks has to be paid on each head of cattle butchered for the peasant's own consumption, and 12 to 15 marks on cattle sold. The tax on 100 kilograms of grain sold is 0.50 marks, on 100 kilograms of potatoes 0.10 marks. It is estimated that the peasants have on an average to pay out 30 per cent of their income in taxes.

The peasants retaliate by more or less open sabotage.

Many of them defy the state restrictions on their production and sales. State control cannot effectively prevent the millions of peasants and consumers from evading the decrees which force sales at prices unsatisfactory to the peasants. Many Fascist agitators inveigh against the selfishness of the peasantry and say this is responsible for the inadequate supplies of food in the towns. A large-scale illegal trade has come into existence.

The energetic campaign waged by the state, the "battle for production," is an attempt to obtain real control of the market by forcing the peasants to supply the state with all their produce and to work in spite of the inadequate prices they receive. Each village has its Committee of Experts (Sachverständigenkommittee) which has to find out whether each peasant has delivered enough corn and whether he has concealed or illegally sold any part of his harvest. The members of these Committees are reliable National Socialists, i.e. state officials and privileged peasants.

The peasants wanted a state guarantee of high prices in order to obtain security. But state control has not been operated in their interests. The state which compels them to sell about 30 per cent below the market price, and frequently even below the cost of production, is more like the feudal landowner who compelled the peasant to hand over part of his produce.

Darré, the Minister of Agriculture, tried to apply the "blood and soil" theory by creating about 700,000 "hereditary farms" (12 per cent of all agricultural producers) i.e. medium-sized farms which cannot be subdivided or sold to satisfy the demands either of creditors or of several heirs. The aim is the creation of a large class of wealthier peasants who will feel secure and will have an interest in defending the private property system, and upon whom the Fascist state can rely. But this law (1934) has grievously disappointed Nazi hopes. Neither the proprietors nor their relatives like it, since it deprives all the sons and daughters, except the eldest son, of property rights. The law swells the numbers of the rural proletariat and the expropriated sons and daughters have no right to state poor relief. They can only go to their elder brother, who is compelled

to let them work on his farm and to feed and clothe them.¹ It is doubtful whether this compulsory collective farm life of brothers and sisters, with the elder brother as proprietor and exploiter, will strengthen the foundations of family life or prevent the proletarianisation of the peasantry. Even the heir is not benefited, since he can no longer get credit on the security of his farm. The private capitalist or bank will no longer accommodate him, and the state has made no provision for financing him. He can only get personal credit, which usually means credit at usurious rates of interest, whilst the big agrarians not affected by the Hereditary Law can get cheap credit from the banks.

Finally a new decree was promulgated assuring the banks that the corporate organisations would compel the peasant to pay his debts, on pain of deprivation of his property, should he eat more than necessary for the continuance of his labours. Nevertheless the banks are not satisfied and still withhold credits. They insist upon a further extension of the rights of creditors against debtors. A Bavarian mortgage bank reported in 1935:

"There is a great demand for long term agricultural credits.

So long as there are no definite regulations concerning the claims of private creditors against hereditary farms the mortgage banks cannot give credits, especially not in the districts where the small proprietors predominate."²

The condition of the peasantry is tragic and pitiful. They had hoped to escape from interest slavery and from the fatal capitalist market cycle as a result of which they earned less if they produced more, because of the resultant gluts and price falls. The Fascist state has given them stable prices but only as a means to their semi-feudal exploitation. Their interest in production has waned because

the maximum size of the hereditary farms is so large that only two or three agricultural producers among thirty or forty (average size of a village) obtain the privileges of the new law. The Hereditary Farm Law has reduced the right of inheritance for brothers and sisters of the inheritor (brothers and sisters only get movable property) so that they are worse off than under the former feudal régime."

¹ Report of the Bayerische Landesbank for 1935-36

they cannot in any case live on the money obtained from the sale of their products.

The only practical assistance which the state offers to the peasants is cheap labour. They can get a boy or a girl of seventeen or eighteen from the state, without payment of wages, to work ten hours and longer. The state has become a kind of slave-trader by supplying the peasants and big agrarians with young workers from the towns, compelling them to work on the land for nothing, or for the minute wage of 20 marks (one pound) which is the monthly maximum. They are forbidden to return to the towns.

The grain policy of the Nazi Government is similar to the rice policy of the government of Japan. Freda Utey has shown how the control of rice prices in Japan compels the small rice producer to sell cheaply whilst increasing the tax burden on the whole population. The peasant in Germany is compelled to live more than before on a diet of grain and potatoes, and to sell his products cheaply to the state. He has to pay a tribute to the big capitalist monopolies and to the big agrarians and to the banks. He can scarcely keep a greater proportion of his production (or of his sales) for himself than a peasant in a semi-feudal society.

The peasants were previously the most ardent defenders of private property. For the same reason they are to-day in conflict with the state which does not respect their property rights. There are villages in Western Germany where Nazi representatives have been driven out by force by the peasants and where "punitive expeditions" are sent. But these peasants are isolated individuals and so are easily oppressed by any organised state-power. From the military point of view, however, the dissatisfaction of the peasantry is another factor which weakens the morale of the army.

Chapter 14

THE WORKING-CLASS

A. THE ARMY'S NEED OF INDUSTRIAL LABOUR

GERMANY'S INDUSTRIAL LABOUR FORCE IS BOTH THE MOST valuable asset of German militarism and the greatest menace to it. It is larger than that of any other country except the U.S.A. There are 12.6 million industrial workers or 23.1 per cent more than in Great Britain, 70 per cent more than in France, 125 per cent more than in Japan, 155.9 per cent more than in Italy. The numbers exceed even those for the U.S.S.R. Several millions of independent artisans and traders and of women have also had experience of industrial work and can immediately be put to work in factories when the necessity arises.

It is significant that the percentage of workers employed in big factories is much higher in Germany than in other industrial countries, especially in comparison with England or France. In Japan the number of factory workers is not only small but less than the number in household, artisan or domestic industries.

These German industrial workers were extremely hostile to Fascism when it came to power. They handle complicated modern machines of great value and cannot easily be replaced. When National Socialism annulled the democratic constitution Nazi propagandist announced that industrial labour in big factories would be replaced more and more by handicraft work and small shops. This would have reduced the numbers of the class which forms the most dangerous opposition to the régime. Such a development, however, could not be tolerated by militarism, which needs mass production and big factories where all kinds of articles for an army of millions and for a totali-

tarian war can be turned out. If these industries do not exist in peace-time, a totalitarian war against other strong powers becomes impossible.

The condition of the working-class is the Achilles heel of militarism in a Fascist country.

Rearmament and the growth of militarism have disproved the theory of the declining importance of the working-class and the increasing importance of the middle-classes. When unemployment was increasing the number of industrial workers of course declined. Many were displaced as technique improved. In those days Fascist propaganda concentrated on the slogans "Back to the land", "For manual work against the machine". But rearmament forced the Fascists to abandon any such policy. The skilled industrial worker is far more important to the army than the tradesman, the peasant or the unskilled worker. Industrial workers are needed to produce armaments, drive tanks, motor cars, aeroplanes and motorised artillery, to repair machinery, and in general to handle the complicated machinery of destruction. The rearmament boom has produced a scarcity of skilled industrial workers. To-day Fascist policy no longer aims at preventing members of the middle-classes from sinking into the ranks of the proletariat, and at converting industrial workers into members of the professional classes. On the contrary, it encourages the young men of both the working-class and the middle-classes to train as industrial workers, and exerts pressure on former industrial workers to return to their original employment.

Major E. Hesse, of the German army staff, has explained why this is being done.

"In the event of war three factors have to be considered:—

1. The Army requires trained reserves, i.e. skilled workers who have gone through military training. Only in exceptional cases, and not for several years, will it be able to dispense with those skilled workers classified as indispensable for military purposes.
2. The demand for technical personnel on the part of the three services is already extraordinarily great, and is growing as mechanisation proceeds. If the modern army on the outbreak of war is six times the size of the standing

army, it follows that the number of skilled workers withdrawn from industry will be six times as great.

3. In time of war the demand for skilled labour is considerably greater than in peace time because of the army's need for weapons, munitions, tools of all kinds, clothing, leather goods, etc. . . . To be able to wage war, a country must have at its disposal at any moment a large amount of skilled labour of all kinds, which will not be called on for enrolment in the army.

Double training will be necessary so that everybody, in addition to his own occupation, will, so far as that occupation is not essential for war needs, also be trained in a second trade to which he can be drafted in time of war. . . . We must create an Officers Reserve Corps of engineers and business men. . . . The replacement of man by the machine is of the greatest importance because of the enormous need for men in time of war, and its significance must be studied in every branch of economic life."

The reintroduction of conscription has withdrawn many metal workers from their trade, for healthy young men are required in this work, and the mechanisation of the army means that some of them will have to stay in the army for a long time. The significance of this extends far beyond the metal trades themselves. Instead of war being a displacement in those industries, there has been *in fact* a considerable shortage of skilled workers.

In the production process, and in war time especially, the front and behind the front, there is a *constant* interdependence will have under their hands the *entire* system of the entire system, the *most* intricate and *impossible* sections of the war machine. In the same time, the army command must be able to *control* the *entire* system, that its *orders* will be *obeyed*, *not* at the *front* and at home, by the *soldiers* *and* *the* *officers* *at* *the* *back*. The *system* of the *war* is *therefore* *not* *only* *leading* *to* *the* *destruction* *of* *the* *war* *machine*, *but* *also* *to* *the* *destruction* *of* *the* *war* *machine* *itself*. The *German* *war* *machine* *was* *not* *only* *preserved* *and* *the* *system*.

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be ready for our part, not only if we are soldiers at the front, but also if we are workers in agriculture, or in industry, or elsewhere. This work must not be thought of as bread-winning, as labour to maintain a family. It is military service no less than service in the Army. . . . The right to dispose of labour will not rest with those who labour. The place of work, the kind of work, and the wages received will be regulated according to the requirements of the war. . . . In testing the attitude of the people, the capacity for enthusiasm and the power to endure must also be taken into account. . . . There are moral as well as material reserves.

“MAJOR E. HESSE.”

This litterateur of the War office is here proclaiming the necessity of abolishing all workers' rights and of applying military regulations and discipline to the factories immediately on the outbreak of war. In the last war the co-operation of the military authorities and the reformist trade-union leaders secured labour discipline. For the first two years there were no strikes. Only when the trade-union leaders had lost all influence over the workers, and strikes began to break out, did the military authorities attempt to ensure regular production by the partial militarisation of the factories. Many workers were sent to the front, and special laws obliged all those able to work to place their services at the disposal of the state. Major Hesse obviously does not put the value of the “moral reserves” very high if he insists on the introduction, immediately on the outbreak of war, of measures which in the last war were found to be necessary only in its third year.

The position of the industrial workers in the Third Reich was regulated in principle by a law of 1933 which abolished the old Factory Councils elected by the workers, and replaced them by a system of “authoritarian leadership”. The factory owner became the leader and the workers the followers. The leader appointed his trustees on the nomination of the National Socialist nucleus in each factory. The workers only had the right to vote as to whether they would accept the candidates. But, in any case, the workers' vote was not decisive. The Labour Trustee, appointed by the state, could confirm the appointment of candidates as “Vertrauensmänner” in face of an adverse vote by the

majority of workers. Even the right of the workers to voice their disapproval of the Fascist nominees was not a reality. In 1936 and 1937 the election of new Labour Trustees was postponed by special decree.

According to the new conception, the old patriarchal relations between the master and apprentices of the days of the guilds ought to be re-established in place of class struggle. The new law, besides abolishing the former rights of the working-class, is part of the preparation for the militarisation of industry. It was a large-scale attempt to split the working-class and create a substitute for the old type of reformist bureaucracy. Many of the militarists, notably von Schieleher, would have preferred collaboration with the reformist trade-union leaders. But the strength of the left wing element in the working-class had largely destroyed the influence of the trade-union leaders.

The National Socialist factory cells were designed to create a body of strictly disciplined and obedient workers from amongst whom a corps of civilian sergeants could be recruited to keep the rest of the workers in order. These were to be men on whom the army could rely to carry out its orders.¹ At a speech delivered in March, 1937 on the presentation of colours to the military division of the German Labour Front, the Reichswehr Minister von Blomberg said

"As Minister for War and Commander in Chief I demand of the German Labour Front, firstly, unconditional obedience to the factory leader and to all superiors. For a soldier 'unconditional' means obedience even when you are convinced that your own opinion is better. What I do not promise and cannot give now or in the near future, is higher wages. There are enough people in Germany who are worse off than the millions who found work again because of National Socialism."²

Military discipline has been introduced into the factories, in particular into those producing essential war materials.

¹ Towards the end of the World War the workers could be pacified and production assured only by the introduction into the factories of the strictest military discipline and dictatorship. If to-day, in peace time this kind of military discipline is necessary to secure the production of armaments, what will the moral reserves be like in time of war?

² *FZ*, 102, 1937

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approached the same dimensions as in England and the U.S.A. Nor were most German trade-unions ever non-political in principle. The leaders were Social Democrats who wished to use parliament to obtain democratic liberties, the legalisation of trade-unions, economic concessions, and laws favourable to the working-class.

In any case a labour aristocracy of the British type never existed in Germany. On the other hand large numbers of workers were employed in state enterprises. They counted as officials; their incomes were very small but they held their jobs for life and received a small pension when too old for work. Their security of existence favoured the development of a petty bourgeois outlook and they wore a uniform to distinguish them from ordinary workers.

The economic position of the better paid German workers was inferior to that of similar grades in England, but in Germany their leaders were strongly influenced by those theoreticians who believed in a peaceful transition to socialism. Yet the German working-class movement had at the outset been revolutionary and anti-capitalist. When imperialist expansion had made possible the emergence of a labour aristocracy the reformist leaders tried to demonstrate that the trade-unions could achieve by economic struggle what the earlier leaders of the working-class movement had hoped to achieve by revolution. The material gains and increased strength of the workers under capitalism were to make a proletarian revolution unnecessary. Therefore the pre-war trade-union leaders supported the "revisionists"—those intellectuals amongst the Social Democrats who were opposed to the Marxist theory of increasing economic contradictions and class conflict under capitalism. Although the revisionists, led by Eduard Bernstein, were defeated at the Congress of the Social Democratic party, they had the support of most of the trade-union leaders. Revolutionary socialists had founded the Social Democratic Party and were its leaders at the time of Marx and Engels; trade-union leaders had had no decisive political influence in those days. When Germany had become an imperialist power, the old generation of revolutionary socialists was dead. The new leaders

of the Social Democratic Party were closely connected with the trade-unions, whose leaders had won decisive influence in the party. They feared to endanger trade-union funds and the position of the trade-union bureaucracy by a revolutionary struggle against the state. They openly collaborated with the general staff and placed the trade-union machinery at its disposal when the war came.

After the war the position of German capitalism was unfavourable to the grant of economic concessions to the working-class, and the concessions granted were given only as the result of the strong political pressure which the workers were able to exert. These concessions were largely annulled during the inflation period and the subsequent period of rationalisation. From 1926 to 1929 there was comparative prosperity in many branches of manufacturing industry. Industrial equipment was modernised and renewed, and rationalisation, which often merely meant intensification of labour, was the order of the day. The industrialists imagined that they could conquer the world market and establish new international monopolies by making use of the latest technique and by rationalised organisation based on intensive exploitation of the highly skilled labour of the German working-class. The trade-union leaders supported them in the hope that these new international monopolies, and the success of German manufacturers on the world market, would again make possible the grant of concessions to the working-class. They did their utmost to spread illusions about economic democracy amongst the workers who, under the influence of their war and post-war experiences, had turned to the left. These trade-union leaders wished to avoid the possibility of revolutionary social change. Instead of struggling against the state they tried to exert some influence upon it and supported those theoreticians who contended that peaceful reforms and penetration of the state institutions would lead to Socialism. According to them violent class struggle and civil war belonged only to the early stage of capitalism, and were a reaction against its "infantile disorders". They could point to improvements in the

conditions of the working-class and represented them as evidence of the possibility of steady amelioration in the conditions of the workers as a result of legal trade-union action, but they failed to show the real nature of the partial improvements conceded to the workers.

The world economic crisis annihilated the gains won in the period of comparative prosperity. It was clear that the German industrialists could not conquer the world market. The new technique had not secured monopolies or lasting advantages, and all the former concessions had to be withdrawn. The big industrialists therefore realised that the old days of peaceful trade-union policy had gone. Accordingly Fascism could not permit the trade-unions to exist. The skilled workers who had formerly been able to obtain economic concessions were forbidden to form any organisations which would reduce competition between the workers. All grades of workers were adversely affected by the new state policy. There was no longer a satisfied element which enjoyed security of existence. In this sense the working-class is more united than before.

When Fascism came to power there was a tendency towards political unity in the working-class movement, although it was still split into a majority of Social Democrats in the trade-unions (mainly skilled workers) and a large minority of Communists who were mainly unemployed. The trade-union leaders were afraid of a United Front which would have led to a revolutionary struggle against capitalism. They did not understand that Fascism would completely destroy the trade-unions. The Communist International stuck to its theory of "Social Fascism", which frustrated the attempt to form a United Front between the two wings of the working-class. According to this theory Social Democracy would become the left wing of Fascism. This was nonsense, since Fascism can allow no kind of trade-union activity. Since the economic concessions which enabled the Social Democratic leaders to win the support of an important part of the working-class for a policy of conciliation with the capitalists could no longer be granted by capitalism, there was no longer any basis for a reformist movement. In spite of this obvious

fact, the theoretician of the British Communist Party, R. Palme Dutt, wrote in 1934:

"If German Fascism rejected the offers and pleadings of Social Democracy for an open alliance, it was because German Fascism had no confidence in the existence of any form of workers' organisation, however servile the leadership, save under its direct control. . . . The rôle of the remnants of Social Democracy thus becomes in practice under the completed Fascist dictatorship, to continue its disruption of the working class in new forms . . . to confuse the revolutionary struggle with the deceitful aim of Weimar democracy which made possible the victory of Fascism. . . . In this way Social Democracy remains, even under the completed Fascist dictatorship, the main basis of support of the bourgeoisie in the working class."¹

Since there could no longer be a privileged section of the working-class interested in the maintenance of the existing social order, it was not true that Social Democracy could under Fascism continue to be "the main basis of support of the bourgeoisie in the working class". Dutt was unlucky in the publication of his analysis. He had given interesting details about Fascist development but he had had to try to prove the correctness of the Comintern thesis. A few months after the book was published the Comintern made an abrupt *volte face* and became the protagonist of "bourgeois democracy" and the defender of Parliament.

C. "WORK FOR EVERYBODY"

In the early days of the Fascist régime a minority of workers harboured the illusion that Fascism might bring that "real socialism" which had not been established in the period of parliamentary democracy. What was the actual experience of the German workers?

When the Fascists came to power the economic crisis was at its lowest point. Almost half the German working-class was unemployed. All workers feared dismissal and this naturally affected their outlook. Many had been unemployed for years. Under the National Socialist régime most of the unemployed went back to work. This fact

¹ R. Palme Dutt, *Fascism and Social Revolution*, 22

has been proclaimed over and over again as the greatest achievement of National Socialism. But what was the actual effect upon the economic conditions of the working-class? It would be absurd to compare the wage bill of 14 million workers with that of 7 million. It is equally absurd to compare the total income of the working-class in 1932, when over 40 per cent were unemployed, with that of 1936, when unemployment had been greatly reduced.

To-day there is actually a shortage of workers in many trades on account of the armaments boom. But in some trades there is still a great deal of unemployment. Even those workers who have derived the main advantage from the rearmament boom have not been reconciled to Fascism. They have not become a satisfied labour aristocracy, for the state has suppressed all their attempts to utilise the prosperity in their trades to reduce competition between the workers by collective wage bargaining. On the contrary, the state has taken measures to reduce the competition amongst the industrialists for the limited supply of skilled labour. The industrialists are not allowed to employ workers who leave their jobs because they want higher wages. The conditions of the unemployed have been worsened, so that the workers have even greater difficulty in existing when unemployed than in the past. The main function of the Labour Exchanges now is to ensure that there shall be no shortage of labour and that the fullest possible use shall be made of the unemployed in state and private enterprises.

Many of the workers have lost the right to relief when unemployed: agricultural workers, domestic workers, the majority of juveniles, and all who can be supported by relatives. Relief may also be refused to a worker because he is politically "unreliable" and was dismissed from his previous employment for this reason; or because he is not "fully capable of work".

The unemployed have been divided into the following categories:

- (1) Those who are fully capable of work in skilled or semi-skilled trades.

- (2) Those who either have no trade or are no longer capable of working at their trade, but are still fit for other work.
- (3) Those who are not fit for work. To this category belong all those suffering from physical disabilities, those who cannot do a full day's work, those who are more or less unwilling to work and who have several times refused jobs without sufficient reason.

The following are excluded altogether from the categories of unemployed: those employed on relief works; those temporarily unemployed during the temporary shutting down of their place of work; casual workers, and those who are not working less than thirty hours a week.

Before the Fascist régime, skilled workers were able to maintain a relatively high level of wages in spite of great unemployment by reason of the strength of their trade-unions. For instance, the compositors, who had suffered heavy wage reductions before Hitler came to power, had nevertheless been able to resist the full effects of the widespread unemployment in their ranks. Under the Fascist régime their trade-unions have been destroyed and free competition amongst the workers has enabled the capitalists drastically to reduce wages.

Formerly the powerful and wealthy trade-unions had paid out extra relief to their unemployed members whilst members of the weaker unions had to rely entirely on unemployment insurance benefit. Only a minority of the workers who had long been unemployed had become paupers, and sunk into the ranks of the lumpen proletariat.

Fascism abolished those rights which had to some extent mitigated the economic insecurity of the workers, and, by destroying the trade-unions, destroyed the means whereby the skilled workers had defended their sectional interests.

The reform of the system of registration and relief served a double purpose: it reduced the cost of unemployment relief and assisted in the militarisation of the nation. The unemployed are sent like soldiers to jobs where they are needed, either for military purposes or by private capitalists. Those who refuse such jobs, even when the wage offered

is less than unemployment relief, are counted "nicht einsatzfaehig"—incapable of work—and lose the right to unemployment relief. In this way hundreds of thousands of unemployed industrial workers have been sent to work on the land, or on the construction of aerodromes, barracks, motor roads. Industrial workers who have once taken jobs as agricultural workers are not allowed to return to urban employment without a special permit from the Labour Office.

This state interference with the workers' freedom of movement was facilitated by the introduction of Labour Books issued to 21·6 million men and women. No employer may engage a worker or a clerk unless he or she has such a Labour Book with all details as to past and present employment entered up. This book is retained by the employer until the worker is dismissed. The employer is thereby provided with a strong weapon of compulsion against any worker who wishes to change his employment. A man without a Labour Book cannot get a job. Employers in the building and metallurgical trades, and in agriculture, are allowed to retain the Labour Book of any worker whose departure would diminish the profits of the enterprise or jeopardise the fulfilment of tasks of national importance.¹ In practice any employer can report a worker who leaves his job to the Labour Office and retain possession of his book. The worker is thus compelled to return to his employment and unable to obtain higher wages by moving to another factory. The Labour Book is the administrative instrument by means of which every worker is subjected to the commands of the state.

Thus the state curtails the workers' freedom of movement in those trades where there is a scarcity of labour, and where better pay could be obtained if they were free to move from one factory to another. In addition to this the state takes measures to prevent the employers from competing against one another for labour by the offer of higher wages. Workers are frequently punished for having left their jobs without a permit from their works leader. If they refuse to return to work at the command of the

¹ Goering's decree of 22nd December, 1936.

Labour Trustee they are called before the "Labour Court of Honour" (Ehrengericht der Arbeit). The following are typical examples of the regulations in force:

Instruction by the Labour Trustee. Goslar, 18th September, 1936

"In order to deal effectively with the breaking of labour contracts which is so prevalent in agriculture, it has been decided in accordance with Paragraph II of the Labour Book Law that the leaders of enterprises must immediately send the Books of those who break their contracts to the Labour Office, together with details of the case"

The Labour Trustee of Silesia published the following instruction in his official bulletin:

"Those agricultural workers who break their labour contracts are punishable. I have ordered those who have broken their contracts to return to work and to have their cases brought before the Labour Court of Honour. By the first decision of the Court a number of workers have been punished in accordance with the new decrees concerning work of national importance. One drover, for instance, was fined 20 marks for stubborn disobedience to the written instructions of the Labour Trustee. He left his job without cause and did not return to work in spite of being ordered to do so by the Labour Trustee"¹

The main function of the Labour Trustees is to reduce "disloyal competition" between the industrialists. The exploitation of labour by the individual employer is limited insofar as certain restrictions are placed upon him in the interests of the community; skilled labour must not be prematurely exhausted, and such conditions as endanger the reproduction of skilled labour must be avoided. The Labour Trustees therefore sometimes protect the worker against excessive exploitation, but this protection is only exercised at the expense of small manufacturers or artisans and even so only occasionally as a demonstration of the "impartiality" of the Labour Trustees. The Labour Court of Honour dealt with 223 cases in 1935 and with 251 cases in 1936; 24 per cent of the accused factory leaders were artisans.

The new restrictions are not applied uniformly. In industrial centres greater pressure is exerted upon the factory leaders not to engage any worker who has left a

¹ F.Z., 19th September, 1936

job without permission from his leader. An examination of the restrictions in force for metal workers shows that the state takes action against those industrialists who do not maintain "discipline" and who raise wages. At the end of 1934, when the rearmament boom began the Rhineland industrialists complained bitterly that many of their skilled engineering workers had left because they could obtain better paid jobs in other parts of Germany. A decree was therefore promulgated on the 29th December, 1934, forbidding skilled workers to move from one district to another, and prohibiting employers from engaging workers coming from another part of the country. But the workers were still allowed to transfer from one factory to another within a given district. The metallurgical industrialists therefore agreed amongst themselves not to engage any worker who had not got a certificate from his last employer showing that he had left with the latter's consent. This was an avowed return to the old private unions of industrialists against the workers. The Labour Exchange bureaucrats, thinking that this encroached upon their own rights and duties, decided that they themselves would take over the function usurped by the private employers associations. On 11th February, 1937, a new decree was promulgated declaring that: "No employer is permitted to engage a metal worker, and no metal worker is allowed to accept a job . . . without the written consent of the Labour Exchange Bureau."

The decree also applies to qualified engineers with a university degree earning less than 1,000 marks.

These new labour regulations do not guarantee stability of employment for the worker. He can be dismissed if either the works manager or the leader wishes it, on account of dissatisfaction with his work, or a glut on the market, or a decline in production, or on account of rationalisation. He can also be dismissed if he shows "enmity to the state" or to the leader. The Labour Trustee has the right to prevent the dismissal of workers or the closing down of factories; but in practice he only occasionally intervenes and only against small manufacturers and peasants. The latter are frequently compelled

to keep one or more unemployed labourers even when they have not enough to live on themselves and do not need to employ additional labour. It is usually quite easy for the works leader of a large factory to prove that dismissals are justified because the profitable working of the enterprise would otherwise be endangered, or because the interests of the state would be harmed.

These decrees represent in effect the first steps towards a new kind of slavery or serfdom for the working-class. Yet at the present stage it would be incorrect to speak of the workers as already enslaved. There is no master or leader who owns the worker and is compelled to provide him with food and lodging. The worker is still a "free" person, but only so long as he is not required in production or for military purposes. The army and the state merely want to be sure that they can dispose of his labour if and when it is required.

The bureaucrats of the Labour Front are trying to create a reliable caste of workers with the privilege of permanent employment. Claus Selzner, the director of the technical bureau of the Labour Front, writes as follows:

"The state officials with fixed salaries should not be the only persons with security of existence. It should be possible within a few years time to say that workers by hand and brain engaged in the selected model factories also belong to those members of the community (Volksgenossen) whose existence is absolutely secure in our society."

But actual conditions do not allow of the development of a new labour aristocracy, or of a considerable element amongst the working-class economically satisfied and therefore loyal to the state. Wages are so low that even the Nazi workers are dissatisfied. The workers are threatened with the loss of their jobs more frequently than before. Two official statements made by the District Courts show the real situation. According to these statements the factory leaders may discharge any worker whose views on the state, the nation or the factory community appear "undesirable". Disreputable behaviour during an outing of the "Strength Through Joy" movement justifies immediate dismissal.¹

¹ *Deutschlandbericht der Sopade*, November 1936.

The spectacular and often theatrical arrangements made by the "Strength Through Joy" organisation do not reveal the real feelings of most of the workers.

The large numbers of unemployed who have been compelled to work as unskilled labourers on the construction of roads, barracks, aerodromes and other public works of a military nature, have been mobilised like soldiers and sent far from their homes. They live in barracks and receive less money than they had previously received in unemployment relief.

D. DECLINE OF WAGES AND PAUPERISATION

State policy has destroyed the advantages formerly enjoyed by the upper ranks of the working-class. The skilled workers can no longer improve their conditions in times of prosperity and labour shortage. This does not mean that they are never able to obtain wage increases by collective action; but it does mean that they can only do so if they disobey the laws and decrees, and they are without any guarantee that any concessions they may obtain will be permanent.

Differentiation of wage scales is indeed greater than before, but this does not lead to the formation of a working-class aristocracy with an outlook different from that of the lowest paid workers, since there is little more security for the former and then for the latter.

In fact high wages coupled with great insecurity of existence create a mood dangerous to social stability. Workers who have had high wages and have grown accustomed to a better standard of living, when they become unemployed suffer more acutely and feel greater resentment than those who have always been badly off.

In any case the highest paid workers are in receipt of a lower real wage than before. Their work is more intense but they cannot get a decent living. They often try to increase their incomes by overtime. In most German armament factories the hours of labour are now nine or ten, except when shortage of raw materials holds up production.

There is no longer any limitation on the number of hours worked. Hundreds of instructions have been issued by the different district Labour Trustees allowing single factories

or whole industries to increase working hours to ten, eleven or twelve daily¹ For example the Wuerttemberg metal industry in the autumn of 1936 was granted the right to order overtime up to a total of ten hours daily labour, and the Labour Trustee responsible for motor traffic has ordered a working day of eleven and twelve hours² The proprietors of brickworks are allowed to order a working day of nine and nine and a half hours The Labour Trustee for the Rhine Shipping Companies sent a circular to the Works Leaders stressing the fact that the official tariff regulations should not be too strictly applied, and that official decisions may be modified according to the needs of the enterprise³

Wages had been cut about 50 per cent during the world economic crisis Hitler promised on the 1st May, 1934, when the old trade-unions were destroyed, that no further reductions in wage rates would be tolerated in Germany.

Even if this were true real wages would show a considerable decline in view of the rise in retail prices since 1934 In that year the State Commissar for the Control of Prices, Dr Goerdler, a former liberal, tried to calm the workers' fears by promising that the rise in prices would only be temporary The official cost of living, however, rose from 116.9 to 126.2 between the beginning of 1933 and 1937. The cost of foodstuffs rose 16.9 But this index bears no relation to the known rise in the prices of essential consumption goods, nor to the fact that the quality of most goods declined

¹ E.g. Wuerttemberg Metal Industry, electricians and furnace workers in Saxony, laundry workers in Hamburg, lorry drivers, machine tenders in Saxony

² *Ra B*, VI, 1936, p. 1171

³ Compare *Arbeit und Staat*, 11th November, 1936

At one of the largest stores in Berlin, Wertheim, prices rose as follows

		1933	1935	Percentage increase
		<i>pfennigs</i>		
Veal	{ 1 kg }	88	176	36
Beef	{ " }	124	240	90
Pork	{ " }	129	192	50
Beans	{ " }	21	32-42	80-100
Peas	{ " }	33	60-96	90-100
Eggs	(for 10)	196	200-240	12-25
Butter	{ 1 kg }	196-232	276-308	40
Margarine	{ " }	48	126-220	150
Cabbage	{ " }	20	44-48	130

Between 1935 and 1937 there was a further rise of prices, e.g. veal 12.5 per cent, beans 8.9 per cent, eggs 20 per cent

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The prices of the foods chiefly consumed by the poor rose more steeply than those of other goods. Moreover there was often a shortage of the cheaper foodstuffs, which forced people to buy dearer foods. Although a correct index figure cannot be given, it is certain that the cost of living has risen considerably under the National Socialist régime. The rise has been at least 40–50 per cent.

As against this, wage rates have generally declined. This cannot be seen from official wage rates, although they declined too. It is, however, a principle in the wage policy of National Socialism that each individual enterprise should pay wages according to its "economic possibilities". It also encourages differential payment through the extension of piece rates.

There are a few sections of workers (in the rearmaments industries) who have not had their wages reduced. They even earn more than previously, not on account of a rise in the wage rate, but because there is less unemployment and because overtime is marked. Many sections of the working-class had their wages reduced in spite of the rise of prices. This fact is confirmed by many reports from individual workers and by official statements. There are, however, no national wage reductions; wages were reduced factory by factory, or for particular sections of workers in one district, so that it is extremely difficult to show the general trend. If one reads the organ of the Ministry of Labour, the *Reichsarbeitsblatt*, one can find plenty of decrees of Labour Trustees cutting wages for various categories in different parts of Germany. It is impossible to reproduce all these decisions, but they are so numerous that the trend is quite clear.

A few instances are given below of wage reductions dictated by the Trustees of Labour in 1936:

		Wage reduction per cent
Metal workers in Frankfort a.M.	(<i>Ra.B.</i> , VI., p. 1105)	25 0
Bakers in Berlin	(<i>Ra.B.</i> , VI., p. 1162)	6·3
Painters in Leipzig	(<i>Ra.B.</i> , VI., p. 754)	5 0
Builders in Karlsruhe	(<i>Ra.B.</i> , VI., p. 1051)	5·6
Carpenters in Cologne	(<i>Ra.B.</i> , VI., p. 793)	20 0

The Labour Trustees have the right to continue or to alter the old wage scales. In some industries the old rates are in force. In practice the industrialists do not take much notice of the instructions given by the Labour Trustees, who occasionally take action against a small employer, but do not dare to do so against a big employer. In the Rhineland the Labour Trustee made an appeal to the industrialists on the 18th May, 1936, to preserve discipline, promising that wage reductions would be permitted when urgently needed for economic reasons.

Exact figures of wage reduction can only be obtained from private reports or factory managers. Some instances can be given: Skilled workers in Northern Germany iron works earned a weekly wage of 90 to 120 marks at the beginning of 1933, as against 30 to 35 marks at the beginning of 1937. Other categories of skilled workers here now earn 20 to 25 marks instead of 50 to 60 marks earned previously. Some categories of skilled workers have been able to obtain wage increases of 10 to 20 per cent, but a far larger number had their wages reduced, although this cannot be seen from an examination of the official statistics.¹

Reports from individual workers lead to the conclusion that the wages of many skilled workers have declined more sharply than the wages of unskilled workers. Only in the armament industries have some of the skilled workers managed to obtain wage increases. But the economically "weak" sections of the working class have suffered tremendous reductions in their wages. They are living below the level necessary for the satisfaction of primary physical needs.

The skilled workers in the armament industries, who are the best paid section of the working-class, are nevertheless not a labour aristocracy. Their wages are too low to enable them to live well or to save money and to provide for the future. Although they are less afraid of dismissals and unemployment than the unskilled workers they have no security of existence. The state suppresses any attempt at collective action or bargaining. This would be against the principles of the "totalitarian state".

¹ See next page-

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The decline in the wage level of the German working-class is proved by the statistics of Health Insurance. The contributions of the workers are graded according to their income, so that the insurance authorities can easily observe the movement of wages. According to these statistics the number of badly paid workers has grown considerably while the number of better paid workers has fallen. Many skilled workers, especially metal workers, who were idle in 1932 and did not earn anything, or who were working in other badly paid trades, are working again as skilled workers. The number of employed workers increased by 7 millions between 1932 and 1937, i.e. by about 48 per cent. In 1937 there were 1,834,000 less workers employed than in 1929 (a fall of 8·7 per cent). But the number of those earning more than 36 marks weekly had fallen by 31·2 per cent, while the number of those earning less than 36 marks weekly increased by 13·8 per cent.¹ More detailed figures show still more clearly the increase in the number of paupers among the workers. Between 1929 and 1936 the number of those earning not more than 6 marks weekly rose 14·4 per cent and of those earning between 6 and 12 marks weekly rose 50 per cent.²

The decline in the wage level is even greater than the figures indicate since deductions for taxes, etc., have risen from 10 to 15 per cent in 1932 (and 1929) to 23 to 25 per cent to-day. A weekly wage of 36 marks is reduced by taxation and compulsory collections to about 27 marks, which is below the subsistence minimum.

Out of a weekly wage of 27·84 marks a semi-skilled worker has to pay:—

	marks
Income tax	·48
Citizen's tax	1·50
Health Insurance	1·16
Accident Insurance	·90
Unemployment Insurance	1·25
Other deductions	1·45
	6·72

¹ *Jahrbuch der Nationalsozialistischen Wirtschaft*, 1937, p. 71.

² *Ra.B.*, 25th May, 1937.

The total income of all workers, including office workers and state officials, according to official estimates, amounted to 25,700 million marks in 1932 and to about 29,000 million marks in 1936.¹ The total working hours of all came to about 13.7 million in 1936 in comparison with 8.6 million in 1932.² 29.9 pfennigs was paid on an average per working hour in 1932, and 19.4 pfennigs in 1936,³ a decline of 35 per cent.

A Berlin worker, an experienced trade-unionist living under the Nazi régime, who has to support a family of five persons (wife and three children aged thirteen, twelve and seven years), gave the author the following account of how he and his family lived, both when he was unemployed and after he started working for eight hours a day:

"In 1933 I used to get a sum of 13.30 marks a week as unemployment pay, plus 8 marks extra relief for the three children—a total of 21.30 marks. 4.40 marks went for rent. The Welfare Office paid an extra sum of 5.90 marks to the landlord. Rent is especially low because the flat is in a suburb of Berlin.

"The family had 16.90 marks weekly to live on. This meant half a mark (about 6d.) per head per day to pay food, gas, heating, etc. The Welfare Committee gave us some extra relief in kind as under:—

Repair of shoes . . .	2 marks monthly
Clothes	4 " "
Coal (for five months)	4 " "
	—
	10 " "

"Extra support from the Welfare Committee came to 5 marks monthly, making a total of 15 marks from them. We therefore got 16.90 marks weekly in cash and 3.30 marks in kind, or a total of 20.20 marks after paying rent. This was half what we had received in 1928 when 38 marks a week had been given in cash and 6.60 marks in kind.

¹ Adjustments have been made for changes in the price level, according to the official price index.

² Employment rose about 5 millions, the average daily work time rose from 6.91 hours to 7.66 hours.

³ This average wage includes the especially low incomes of agricultural workers, domestic workers, young workers, etc.

⁴ Maximum relief, paid only to a small section of unemployed

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"Now I got a job as a transport worker at a metal firm, earning 60 pfennigs per hour and working forty-eight hours a week. On an average the weekly wage comes to 32·00 marks.

Deductions for Insurance, etc.	.	.	.	3·10 marks
Citizen tax	.	.	.	·80 „
			net wage	28·10 „

"I now have to pay full rent, 6·65 marks weekly, and 1·40 marks weekly for fares. My net income is therefore
12·15 marks weekly.

"The Winter Help gives us about 1·10 marks weekly in kind, so that my family has to live on 20·95 marks—almost the same amount as I received when unemployed, although prices have risen tremendously. However, I have no choice. If I left my job or were dismissed 'through my own fault,' I would not get any relief at all, and I would be condemned to starvation."

Can I support a child in the Third Reich? This question was answered by Wolfgang Heinrich, a skilled Berlin worker, as follows:¹

"I am still single. I cannot think of marriage although I have been engaged for several years. It is impossible for my fiancée and myself to have a child after marriage. Our income does not permit it. If we did either, we or our child would have to starve. A calculation of our expenses and income shows what we would have to live on:—

Monthly income	.	.	.	marks 180
				<hr style="width: 20%; margin: 0 auto;"/>
Deductions (taxes and insurance)	.	.	.	40
Rent (two rooms)	.	.	.	45
Light, gas, heating	.	.	.	15
Life insurance, etc.	.	.	.	10
Fares and pocket money	.	.	.	20
				<hr style="width: 20%; margin: 0 auto;"/>
				130

"Fifty marks monthly remain for everything else. How can we pay for washing, clothes, cultural occupation, or even a holiday with the Strength Through Joy Association? How can we afford to feed three children?"

The poverty of the people is also proved by the Winter Help organisation. It supports only people who have not got even a bare subsistence. There were well under a million

¹ Quoted from the Nazi paper, *Der Angriff*, 23rd February, 1937.

registered unemployed in 1935-36, but the number of people assisted by the Winter Help amounted to 12.9 millions. This means at least 20 to 25 millions (family members included). According to this almost one-third of the German population had an income below the subsistence level.

There is almost no difference between the wages of office workers and factory workers. On the average the salaries of office workers, employees of shops, etc., are on about the same level as those of unskilled workers, while a small number receive salaries as high or slightly higher than the skilled workers in industry. Only a relatively insignificant number of office employees have higher incomes than manual workers.

Although so large a proportion of the German working-class and of the black-coated proletariat receive wages too low to afford a decent standard of life, there appears to be no limit to the possibilities of reducing a human being's standard of life, and many workers in Germany have been living for years at a bare subsistence level. The only persons in authority who are seriously concerned about the decline in the health of the workers are the army officers. They find it hard to obtain a sufficient number of recruits strong enough to bear the physical strain of modern warfare. Hard physical training on a poor diet is nevertheless supposed to fit the German youth to the new social conditions.

The main point which it is intended to emphasise is, that there is no possibility for the growth of a labour aristocracy under National Socialism. Not only are the wages of the skilled workers too low, but they still go in fear of unemployment.

The only chance to escape from insecurity is further militarisation, increase of armaments, and the transformation of the wage earner into a soldier. But this cannot be a welcome change. The skilled worker in particular objects to it intensely. General militarisation of the working-class, whilst the factories remain private property and a small privileged class can still enrich themselves, cannot produce the morale essential in modern warfare. To-day, whilst

there is still peace, complete militarisation of the population is impossible.

The social decline of the working-class which has occurred means that it is more united than ever before. This is true in spite of the disparity in the wage levels of the skilled and unskilled, because all alike have no security of existence. The efforts of the Nazis to create a privileged section have failed. The "old fighters" of the Party, employed in the factories and used as a reliable guard amongst the workers, are mostly unskilled men and frequently bad workers who would most likely be dismissed were it not for political considerations. Their wages are usually on the level of the unskilled on account of their inefficiency, and they have accordingly lost their faith in National Socialism and become "unreliable."

In the next chapter we shall show how the Fascist state machine maintains its power in spite of the social unification of the working-class.

PART V
THE PARTY AND THE OPPOSITION

Chapter 15

THE PARTY AND THE BUREAUCRACY

A. THE GROWTH OF THE STATE-MACHINE

THE FASCIST SYSTEM RESTS UPON A GIGANTIC STATE-MACHINE. Every citizen is constantly aware of the state power and of its bureaucracy. The latter consists of hundreds of thousands of permanent officials, small and great, of millions of clerks and policemen who are all terrified of losing their jobs if they show any signs of unreliability. They work under the direct control of the Party which acts as the staff of the bureaucratic army.

The civil service and police force are both very much larger than under the Weimar Republic, and so is the professional army—as distinct from the conscript army. In 1933 the police force numbered 140,000, which is 75 per cent more than in pre-war Germany (1913). There were only a few dismissals under National Socialism. On the other hand, tens of thousands of S.A. and S.S. men were affiliated to the police forces. New police units were formed, for example, the Secret State Police (Gestapo) with many thousands of regular employees; the S.S. (40,000 professionals). The total membership of the police forces is at least, according to one estimate, 50 per cent greater than in 1933 and 162 per cent greater than in 1913.

A whole series of new state offices has been created. The Ministry of Propaganda, for example, is Hitler's creation. It employs 101 officials of high rank, and it maintains thirty-one branch offices with a staff of many thousands.

The N.S.D.A.P. has its own administrative machine employing tens of thousands. There are the Labour Front, the Welfare Organisation, the Youth and Children's

Organisations, in addition to the state offices. All have created new jobs in an immensely inflated state bureaucracy.

It has been calculated that previously one-twelfth of the population were state officials while to-day these number one-eighth. Under National Socialism the number of state employees rose by about 2.7 millions or almost 50 per cent.¹ This figure does not include the army (about 1,000,000.) The majority of the state employees are without rights to pensions or permanent employment. The number of employees who may be dismissed at short notice has grown considerably more than the number of civil servants.

B. PARTY RULE AND STATE AUTHORITY

In democratic countries the Civil Service is controlled by Parliament. It is true that the higher officials even in democratic countries have become to a considerable extent independent of Parliament. But under Fascism this independence of the bureaucracy has been legalised and made absolute. The bureaucrats are answerable to the Leader alone.

The question arises: On whom is Hitler himself dependent? Can he do what he pleases? Has the state bureaucracy become a force standing above the classes and threatening capitalists and workers alike?

In the early days of Fascism the "old guard" of the Party expected to rule Germany. They did, in fact, obtain many privileges. But once they became state officials they no longer came under Party discipline. The members of the Nazi Party have no right to interfere with the orders given by the highest state officials to their subordinates. This has been made quite clear in the new "Law for Civil Servants," which runs as follows:

"State officials are to accept orders concerning the conduct of office business only from their superiors. This duty to obey the state overrides all other allegiances, even the obedience

¹ According to *Statistisches Reichsamts* the number of State officials amounted to 3.7 millions in 1933, the number of those employed by the Army and Navy to 147,000. The proportion of State officials (with pension rights and permanent employment) to employees who may be dismissed at short notice was 1 : 0 : 6 in the public administration and in the juridical institutions of the State (*staatliche Rechtspflege*). Accordingly the number of all State employees can be estimated at 5.7 millions.

owed to the NSDAP. The state official is not to carry out the orders of his Party superiors when they contravene state orders"¹

There is, however, no antagonism between the Party and the state bureaucracy. The leaders of the Party and of the state are the same persons and are "authoritarian" rulers of both. Nevertheless, the Party is to some extent independent of the state, a kind of *imperium in imperio*. Although Party members get certain privileges they also have special duties. They have to do propagandā work, attend Party meetings, join the armed forces of the Party, and be ready to defend the Leader and his policy at all times and in all places. They may be tried by special Party tribunals and condemned to severe punishment without any interference by the ordinary courts of justice, and irrespective of their legal rights under the law. The Party leaders accordingly control a gigantic machine which constitutes a terrible weapon against any internal enemy.

All important posts in the state administration are held by reliable Party members. Among the 1,200,000 members of the official Union of German Civil Servants there are 206,000 members of NSDAP including²

- 44,000 old members (before 30th January, 1933)
- 70,000 political leaders (of the NSDAP)
- 100,000 members of the SA
- 11,000 members of the SS
- 9,000 members of the NSKKK (National Socialist Automobile Corps)
- 860,000 members of the National Socialist Welfare Association
- 550,000 members of the Air Protection Association (Reichsluftschutzbund)

Eighty-one per cent of the higher state officials in Prussia are members of the NSDAP. For Germany as a whole the percentage is 34.6³

¹ See article in *Frankfurter Zeitung*, 28th January, 1937. Duties Towards State and Party.

² *Frankfurter Zeitung*, 16th August 1936.

³ See *Frankfurter Zeitung*, No. 130-1, 1937. The total number of high officials is ~ 339.

Thirty-two per cent of all teachers are members of the N.S.D.A.P., 160,000 teachers are political leaders of sub-units of the Party, 23 per cent of all teachers are members of the S.A., S.S. and N.S.K.K. (National-Socialist Automobile Corps).

The percentage of Party members in the lower grades of the state service is smaller. But anyone employed by the state to-day has to be "reliable", and is threatened with dismissal and loss of pension if he proves "unreliable". According to the law of January, 1937:

"No one is to be appointed unless in addition to the qualifications which fit him for his post he gives a guarantee that he will always defend the National Socialist state without reservations."¹

Although the written laws do not proclaim it, the influence of the Party exercised by means of personal contacts is real and very important. A large percentage of the Ministry are Party members, some of them are also Reich Party leaders; all Reich *Statthalters* are members of the Party, and the majority of them are also district Party leaders. The provincial Presidents of Prussia are invariably the district Party leaders in their respective provinces. Finally important political posts are filled in the majority of cases by old and reliable Party comrades.

C. THE PARTY ARMY

The Party leaders endeavour to defend the Fascist régime and their own privileges by strengthening the police forces and their own armed guards. The police forces are quite different from those of the "good old days", and are now more like an army specially trained for civil war. They are divided into different sections, each with its own special rights and duties.

The Gestapo (State Secret Police).

The S.S.

The S.A.

The ordinary police.

The Feldjagerkorps (Mobile Guards).

The Werkscharen (Factory Police).

¹ *Frankfurter Zeitung*, 28th January, 1937.

The use of armed force against the enemies of the state is unrestrained. For the first time in the history of the bourgeois state the state itself has organised armed forces which are allowed to break the law and even attack the sacred principle of private property.

The Reich Leader of the S.S. and Police-Chief Himmler writes in *Tasks and Construction of the Police of the Third Reich*, a symposium edited by Secretary of State Pfundtner:

"The powers of the police cannot be defined by formal regulations. . . . Their powers should not be limited by formal barriers. . . . The powers of the National Socialist police cannot therefore be formulated in special laws. . . . Like the army, the police can act only at the command of the leadership, and not in obedience to laws."

The Nazi leaders have endeavoured to create an army of police in which the men are separated from the rest of the population, and therefore remain unmoved by their misery. S.S. men are only allowed to become engaged to marry with the consent of their leaders. Another decree, published 9th November, 1935, compels all S.S. men to use their arms to defend their "honour" and their uniform, thus giving them the right to shoot without question any civilian who is considered to have insulted them.

In a booklet issued by the Propaganda Department of the S.S. we read:

"What is your oath?"

"We swear to you, Adolf Hitler, as Leader and Chancellor of the German Reich, loyalty and courage. We swear loyalty and obedience unto death to those you have appointed. So help us, God."

Himmler, the leader of the S.S. and of the Secret State Police, referring to the blind obedience demanded of the S.S. man, said:

"Understanding may err. This is sometimes harmful, but never irretrievable. . . . Obedience which does not hesitate for one moment, but unquestioningly follows every order coming from the Leader or from his authorised representative, is what we want."

is taken into a large, bare room. At the far end there is a table at which three officials are seated, ready to cross-examine the prisoner and take down his answers. The only light in the room is thrown on to the prisoner as he stands in front of the table. Once the examination has begun, other officials enter the room from the back and take up their places behind the prisoner, in darkness. He cannot see them, but he knows they are there and hears their movements. He is perfectly well aware that these silent witnesses will beat and torture him later on. Questions are fired at him, and no violence is offered him during these proceedings; but, from their position behind him, and without being able to see his face, the listening officials are all the better able to recognise and note any tremor in the prisoner's voice, any hesitation or reservation in his answers. In this way, too, they learn what points about this man are of particular interest to the Gestapo and what they will be expected to beat out of him when the time comes. Contradictions, refusals to answer, and partial confessions all tell their tale, and by the time the prisoner is turned over to the torture department, his weaknesses lie bare.

Small wonder that no illegal worker considers himself safe once a close friend has fallen into the hands of the police. He may be quite certain that such a friend will never consciously betray him, but who knows how long a human being can hold out in face of Gestapo methods? Frequently one arrest leads to the subsequent wiping out of a whole group.

Illegal work has of late become easier to perform and, at the same time, more dangerous for the enemies of the state. In the early days, Fascism tried to "educate" political prisoners. They were submitted to humiliating brutalities and hard labour. "*Der innere Schweinhund soll totgeschlagen werden*" was a familiar slogan of the subordinate officials. ("*Der innere Schweinhund*" was personal integrity.) *Strammstehen bei Backpfeigen* (blind discipline under insult) was the ideal, and an ill-timed blink was quite likely to be interpreted as resistance to the state and to warrant death. But the results of this education were not quite what the educators intended. They might actually inculcate a

high degree of military discipline in their victims, but the impassive face, the precise movements and the unflinching demeanour still covered an ineradicable contempt for and an unyielding sense of superiority to the all-powerful system. Over 100,000 men and women passed through the concentration camps and prisons in the early days of Fascism, and are to-day its most bitter enemies. The Nazis have learnt that they cannot convert active and conscious anti-Fascists, and they have adapted themselves to the fact by changing their practice, which is now to break and kill any known member of an illegal organisation, or alternatively to turn him into a spy.

When Fascism came to power in Germany almost half the population acted as spies and informers, and the Gestapo had millions of voluntary assistants. These unofficial and unpaid servants of the new régime were not actuated by pure idealism; they merely wished to give proof of their loyalty and divert suspicion from themselves. The "*Marzgefallenen*" (those who changed their political allegiance in the first March of Nazi rule) felt it incumbent upon them to demonstrate their sincerity by denouncing at least a few of their former political colleagues. Unfortunately, in their efforts to emphasize the value of their information, these early spies always claimed to be denouncing "leaders", however unimportant the person in question might in fact be. The result was that the Gestapo was inundated with unreliable denunciations, and has been brought to-day to rely only upon its own paid agents. Those who formerly acted as spies are now to be found among the mass of the discontented, while the remaining careerists and lickspittles of the Nazi system are despised by their fellow-workers and neighbours alike. Recently a Fascist worker in a certain factory denounced one of his fellows for having distributed anti-Fascist leaflets. The suspect was instantly dismissed and sent to prison. The other workers thereupon systematically boycotted the informer. Nobody addressed a word to him; he could never find his tools; his machine was always out of order, and metal splinters were constantly found in it, so that he could never finish his work on time. He was desperate, but he could hardly denounce the entire factory.

Chapter 16

SOCIAL ANTAGONISMS WITHIN THE STATE BUREAUCRACY

FASCISM HAS CREATED A NEW CLASS DIFFERENTIATION AS between those who belong to the Nazi Party and those who do not.

Within the Party there is a further differentiation between the "old guard" (members who joined before 30th January, 1933) and the *Marzgefallenen*, who joined the Party after the Nazis came to power.

Old Party members as a whole enjoy many privileges. They have a better chance of securing state employment than non-Party people. They have their nuclei in all enterprises and can insist that their Party comrades should receive privileged treatment. When there is a demand for new workers or officials they insist on reliable Party members being chosen.

The new Party members have not been attracted by any National Socialist ideals, or by hopes of an anti-capitalist revolution such as inspired those who joined the Party under the Weimar Republic. To-day it is the hope of lucrative or permanent employment; in particular the desire to win greater security of existence than ordinary citizens. But entry into the Party is only possible for those who take an active part in Party activities, and who were never opposed to the system. Strict obedience is an essential condition for the privilege of Party membership, which in turn may be rewarded by the grant of economic privileges.

The trouble was that there were more Party members than jobs. Many have been disappointed, in particular the lower middle-class elements and the unemployed workers. But it is not easy for those who once become members to leave the Party. If they do so they are regarded as

traitors and enemies of the régime. The least penalty is the loss of employment and difficulty in securing a new job.

It is extremely difficult for a non-Party man to get state employment. The local and district leaders see to it that Party candidates are preferred.

Most Party members belong or belonged to the middle-classes. A small minority are working class people, they are mostly unskilled workers who joined the Party because they wanted a job or hoped to keep their job by becoming Party members. They were often unemployed for long periods because they were not good workers. The industrialists were compelled to employ a certain percentage of these Party members. But it often happened that they were dismissed when production was reduced, whilst other workers were kept because they worked harder and better. In many factories it is no advantage for a worker to tell a manager that he is a Party member, it might be thought that he does not know his job.

In 1936 the Party leaders made an attempt to train their unemployed and unskilled members for work in the metal industries. A former army training camp, the *Lockstedter Lager*, was used for this purpose. About a thousand Nazis between the ages of twenty and thirty-five received several months' training and were then placed in factories. They were paid only 45 pfennigs an hour, as against one mark or more paid to skilled men in the engineering trades, but most of them were soon dismissed. They could not handle the machines because their training had consisted mainly in learning to march. They ruined the machinery, and the other workers refused to help them, so that production was disorganised.

Many "Lola" workers (trained at the *Lockstedter Lager*) had been employed by the *Deutsche Werke, Kiel*, where warships are built. They have to work for 40 pfennigs (4½d) an hour, living in barracks. The new cruiser *Greisenau* was built in these shipyards. When it was launched in 1937, there was a fatal accident. An enquiry exposed the fact that all the welding work of the "Lola" workers had been badly done. Many "Lola" welders have been arrested by the Gestapo for "sabotage".

The following report from an old Nazi storm trooper, who had never learned a trade and was unemployed when the Nazi régime was established, is of interest in this connection:¹

“When I joined the National Socialists in 1929 I was earning about 45 marks a week. In 1930 I became unemployed and joined the S.A. After we had made our revolution I became a guard in a concentration camp. One fine day I was suddenly dismissed and then got work on 6th May, 1933, as a labourer on the railway. Although the work was hard and I was unaccustomed to it, I was glad to have got work again. I didn't earn much, but it was a bit more than unemployment pay.

“After I had been left in peace for a few weeks, I was told I must pay up my dues to the S.A. and to the Party. . . . But to-day, two years later, it is impossible to exist. Whereas we used to earn 45 marks a week, now we are glad if we get 20 or 24. Out of an income of about 100 marks a month, I have to pay the following sums each month.

marks

- 1·80 to the Party (this includes 30 pfennigs to the S.A. Insurance)
- 4·00 to the S.A. as membership dues
- 1·00 for uniform and equipment
- 0·10 for S.A. group fee
- 0·10 for a national memorial
- 0·30 for rifle practice
- 1·60 for ammunition
- 1·00 for tram fares to and from work
- 2·00 for beer at meetings

12·50 S.A. and Party dues

A S.A. labourer on the railway, earning about 100 marks a month, pays the following in taxation, dues, etc.:

marks

- 3·00 citizen's tax
- 3·60 income tax
- 3·45 bachelor's tax
- 15·96 insurance against sickness and unemployment
- 2·20 pension contribution
- 2·10 contribution in payment of unemployment relief formerly received

¹ Published in the *Deutsche Freiheit*, 9th January, 1935.

1.20 winter relief

2.40 Labour Front

0.50 contribution to the reconstruction of the national economy

 34.41 Total taxes, insurances, etc.

The strength of the Nazi Party is not to be measured by its actual membership. Those who have failed to obtain state-paid jobs or paid jobs in the Party are most of them by now "unreliable", in particular those of lower middle-class or proletarian origin. The S.A. to-day is but a shadow of what it was in 1933. The old members have lost their illusions and are not to be relied upon in an emergency. The S.A. has therefore been "purged" several times.

A report received from Berlin states that:

"In the spring before 30th June, 1934, one Berlin storm troop consisted of more than 200 men and 70 per cent attended for duty. By the beginning of 1935 there were still eighty-nine members and thirty men attended for duty. In the autumn of 1935 regular exercises had to be discontinued, because of the small attendance. Then came the reorganisation of the Storm Troops. After this the Berlin S.A. consisted of 25,000 men instead of the 100,000 in it before 30th June, 1934."

Yet the fear of losing employment or of actual physical punishment prevents most S.A. men from resigning voluntarily.

Most of the factory nuclei have also proved a failure. The original members are as dissatisfied with life under the Fascist régime as the non-Party workers. Nor is it pleasant to have to work daily side by side with men who regard you as an enemy and an informer. Most Nazi workers have become passive, avoiding political activity and endeavouring to conciliate their workmates.

The privileges enjoyed by most Party members have not made them rich. The salaries paid by the state and the Party are extremely low. Most officials earn little more than ordinary workers and less than the skilled. Only a small upper stratum of the bureaucracy get salaries bringing them into the ranks of the upper middle-class.

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Salaries of German Civil Servants
(in marks per month)

	Married	Unmarried	After Deductions
Ministerialrat des Reiches	661	627	495
Oberregierungsrat	400	371	278
Regierungsrat	386	358	259
Oberinspektor	353	325	243
Oberwerkmeister	221	198	149
Sekretar	218	195	145
Assistent	194	171	123
Kanzleiasistent	160	138	103
Heizer, Hauswart, Postbote	147	125	94

(Statistisches Jahrbuch für das Deutsche Reich, 1936)

The salaries of other government employees who are expected to be militant defenders of the state are on a miserably low level. In Saxony assistant teachers get 4.90 marks a month per lesson, instead of 6.20 as in 1932.

The salaries of the Gestapo and its paid agents are also very low, except for the highest ranks. They earn about 100 marks a month, but receive extra payment for good work. For instance, they may receive a premium of 20 marks for each Communist they lay hands on. These policemen are not trained for any trade. They are usually ruined middle-class people with no other means of existence.

At the end of 1936, a socialist wrote about the police:

“Immediately after the revolution, all Social Democrats and also all other ‘unreliable’ officers were removed from the political police and placed elsewhere. They were replaced by men of lower rank who had been secret members of the N.S.D.A.P. under the Weimar Republic, or by S.S. men. Nevertheless a few of our people were able to retain their posts. We learnt from them that soon after 30th June, 1934, officers of the political police were discussing what would come after Hitler. In our larger towns more than 100 agents of the Gestapo were being paid a fixed salary of 50–100 marks a month. Amongst them are some working in the streets and factories, some as special agents for the apprehension of Communists, socialists, Catholics, etc. These men have a police document and carry arms. They are known to the local police-station in the quarter where they work. Many have sub-agents who supply information for a few groschen.”

The leaders of both higher and lower ranks of the Fascist fighting organisations, the S.S. and the S.A., are, with few exceptions, men of middle-class origin, such as ex-officers and university graduates who were previously unemployed. Their salaries are on the scale shown below:

Salaries of the S.A. and S.S.

Troop Leader (Truppführer)	Free maintenance and	45 marks monthly
Detachment Leader (Stabelführer)	" " "	60 " "
Storm Leader (Sturmführer)	" " "	75 " "
Standard Leader (Standartenführer)	" " "	350 " "
District Leader (Sturmbanführer)	" " "	600 " "
Gauführer	" " "	700 " "
Supreme Leader of the S.S. and of the S.A.,	salary unknown.	

These salaries represent a real improvement in the lives of most leaders, although the lower officers receive small amounts. These sons of the ruined middle-classes are even more afraid of unemployment than the working-class and stick to their jobs at all costs. But only a small fraction of the university graduates looking for work can get these posts.

The contrast between the standard of life of the higher and lower state officials is much greater than their salaries indicate. Political influence secures extra income for the higher officials. Some own newspapers or magazines which the members are compelled to buy, as, for instance, the *Eher Verlag*, owned by Hitler himself. Others get "donations" from business men and industrialists. Marriages are often arranged between the daughters of the capitalist class and the Fascist leaders. Secret state funds are used to purchase luxuries for the leaders.

A great deal of ill-will is felt towards these parasites who are regarded as squandering the lost money of the ruined middle-classes and the taxes paid by the whole population. This hatred of the bureaucracy is a new feature of German

social life and will bear fruit in any future crisis of the régime.

However many Party members grumble, it is obvious that men who have joined a movement in the expectation of getting a job will take no undue risks, and will not grumble more than is permitted. They will never risk their positions by any action against the Fascist régime. But those who have failed to get jobs, and in particular the old guard, are suspected of oppositional tendencies and of being "dangerous". The Gestapo is to a considerable extent engaged in watching the members of the Fascist organisations, especially the Storm Troopers and the members of the Party, but first and foremost suspicion falls upon the old guard. Special sections of the S.D. (*Sicherheits Dienst*) (Public Safety Service) have been trained to supervise the members of the Nazi organisations.

It was stated in a secret order issued on 3rd June, 1936, by the S.S. Chief Heydrich that "the control of our own members is our main concern".

A German Social Democrat makes the following report:

"The S.A. and S.S. men undermine the foundations of the state more than anyone else. I cannot understand how the higher ranks fail to grasp this fact. They must know it. The remark 'Hitler must go,' is heard more and more frequently. I can offer only one explanation concerning the members of the military organisations: Everything is known about them, but the authorities say to themselves that these people can be more easily controlled if they remain inside the organisations."¹

So long as the state and Party machine functions, no force inside Germany can overthrow Fascism. The leaders realise this and do their utmost to strengthen the Party apparatus and to transform the Party and the bureaucracy into a caste apart, united by common interests and privileges. This policy had been only partly successful. There are too many members who cannot obtain privileges, whose standard of living remains extremely low, and who are incensed at the luxuries enjoyed by their more fortunate leaders.

The state watches over the movements and thoughts and conversation of every citizen. Hundreds of thousands of

¹ Reports from Germany of the S.P.D. 4, April 1937.

assistants supply the Gestapo with information about their friends, neighbours and colleagues. Concierges are no longer simple porters and housekeepers; they have become *Block-walter* who must report on all the families living in the block. In principle one reliable Nazi is supposed to keep watch on four or five families. He is expected to know full details of their private affairs and incomes, and state relief is granted to or withheld from these families according to what he reports.

This vast machinery for spying and informing is not as efficient as appears on the surface. The *Blockwaller* is very poorly paid and receives nothing extra for the additional work he has to perform "in the interests of the state." Realising that the tenants upon whom he is supposed to keep a watch are as badly or even worse off than himself, he is often on friendly terms with them. His reports are therefore often unreliable. The more complicated and vast the state machine becomes, the greater are the social antagonisms, and the less reliable the lower members of the apparatus of coercion and intimidation.

The growth of the Fascist Party and its militant subsidiary organisations has been accompanied by a deterioration in its spirit and morale. There is no longer a common ideal to unite the members in belief in the Leader and the cause. Personal interests, careerism and privilege alone keep the membership united.

The Minister of Propaganda tries to make the old Party members believe that "real socialism" although not achieved will soon come. The day will yet come when Hitler will give the order to march against the capitalist exploiters and fulfil his old promises to establish "real socialism". But such ideas are only tolerated in mild forms precluding any agitation against the present system.

"How can our comrades believe that capitalism, interest slavery and exploitation have been overcome when on their demonstrations they pass the Stock Exchange building, when they read about the dividends paid by different companies, and when they realise through their own miseries how this criminal commercial spirit ruins everything. Therefore the movement cannot rest on its laurels"¹

¹ *Der Reichsreport* (Editor: Graf Reventlow), February, 1935

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"We are astonished by the words of those enthusiasts concerning what we have won. Oh, certainly we knew before and we know now that progress has been made. But whenever we think, we become aware of what is still lacking. . . . The conception of socialism is too real to us to imagine that it could have been established by only three years of National Socialist leadership. We stand too close to the people to be able to overlook what remains to be done. . . . We know that we have only made a beginning."¹

Such promises as these will only be fulfilled if war comes. The state will then be compelled to take control of all means of production and substitute a planned economic system for private capitalist economy.

The difficulty is that Germany cannot yet take the risk of embarking on a war, and so cannot satisfy the desires of the old Party members for "real socialism". In the meantime the idea of "National Socialism" is more and more compromised, and the National Socialist leaders lose the confidence even of their own supporters.

¹ *Das Schwarze Korps* (Organ of the S.S.), 10th September, 1936.

Chapter 17

HITLER, SCHACHT AND THE ARMY

THE BOOKS AND ARTICLES WRITTEN ON FASCISM USUALLY misrepresent the power and influence of the Nazi Party and the supreme leader, Hitler. It is wrong to suppose that Hitler is a dictator over the capitalist class as well as the working-class, and that the Nazis constitute an independent force based on the middle classes. It is also wrong to suppose that Hitler and the Nazi Party are the mere tools of a few big capitalists or even of one big trust magnate (Thyssen).

The idea of a "people's front" of all social classes against Fascism is based on the assumption that the Fascist state bureaucracy is a new class, antagonistic even to the capitalist class. Although it is true that the bureaucracy defends its interests even against those of private capital, it is not really independent of the capitalist class. Schacht and his banking machinery, together with the army leaders, still hold the key economic positions. Moreover, the leaders of the Party are personally closely connected with the leading capitalist groups by bribery, marriage ties, and collaboration in business undertakings. All this ensures the "reliability" of the Nazi leaders.

Although the vast administrative apparatus organised on authoritarian principles gives immense powers to the dictator, this does not mean that he is independent of any class. On the other hand, it is wrong to describe Hitler as the office boy of Thyssen or Schacht. These representatives of big business often come into conflict with the Party leaders, and then have to persuade Hitler to follow their line. Hitler makes the "authoritarian" decision which is best for the system as a whole and for his own security and power. The Nazi Party is to some extent

of the state bureaucracy, but the army and Schacht also enjoy a certain independence.

The army general staff which is organising the militarisation of the country insists on decisions which strengthen the armed forces. Thus far their needs take precedence.

The fact that on important issues the wishes of the army predominate over those of the bureaucracy and the Party was demonstrated early in 1937, when the Minister of Posts, Railways and Telegraphs retired. The Party bureaucracy wished to have Huhnlein, leader of the National Socialist Automobile Corps, appointed. This ministry is a coveted post, since it disposes of tens of thousands of state appointments. But the army objected to any experiments being carried out on the railway and telegraph systems; they are too important from the military point of view. It insisted that a real expert should be appointed, and Dorpmueller, a former Railway Director, got the post of Minister of Railways, while Olnesorge, an experienced man who had organised the postal and telegraph system during the war became Minister of Posts and Telegraphs.

The comparative independence of the army leaders is a striking feature of the Fascist régime. This does not mean, however, that the Party leaders have no power and have to consult the army at every turn. On the contrary, the army does not wish to be held responsible for internal policy. Under the Weimar Republic it left to the Reichstag the responsibility for unpopular decisions, and to-day it leaves internal administration to the Nazi Party and the bureaucracy.

The army leaders do not want to act as a police force for the maintenance of order at home. This would expose it as the defender of an unpopular system, and jeopardise the militarisation of the nation by making the army unpopular, and so putting an end to all hopes of the people supporting it in war. Accordingly the army leaves it to the police to terrorise and torture the internal enemies of the state. If a revolution threatened the system, the army would, of course, have to defend it. Will such a situation ever occur? The Nazi leaders themselves think it possible. On 1st February, 1936, Hitler signed a special decree

empowering the army general staff to take over the government if the system were to be endangered by insurrections widespread strikes, etc. This decree was given as little publicity as possible.

Schacht has up to now been unable to secure financial control over the Nazi Party. The incomes of the Party and its subsidiary organisations are derived partly from state contributions, and partly from so-called voluntary contributions which are, in fact, compulsory, since it is dangerous to refuse to pay them. Schacht's attempts to cut down the lavish expenditure of the Party leaders by establishing a strict control of the Ministry of Finance over the new organisations were unsuccessful.

The Party, with its sub-organisations, is a juridical person. . . . The financial administration is in the hands of the Reich Treasurer under general power of attorney given by the Leader.

Ministerialrat Sommer, 1937.

Schacht wishes to curtail the enormous expenditure of the Party and its organisations for the sake of the army. This is why he insisted upon the appointment of a "Savings Commissar" and on the reforms designed to cut down expenditure by the minor Party officials.¹

The most expensive Nazi organisation, apart from the Party itself, is the Labour Front, which took over the property of the trade-unions when these were abolished. The Labour Front gives a living to thousands of old Nazis and maintains an enormous and well-paid bureaucracy. *Der Deutsche Volkswirt*² complains that the Labour Front, and its subsidiary, the "Strength Through Joy" Association, which has a budget of 2-3 milliard marks, has never given an account of its expenses, and is financially entirely uncontrolled.

The representatives of big business complain in vain of the huge expense involved in the maintenance of the new state bureaucracy, and of the fact that its expenditure is largely uncontrolled. This, of course, reduces the profits of the capitalists as well as burdening the whole population.

¹ See *Der Deutsche Volkswirt*, 24th April, 1936.

² 24th April, 1936.

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"The domination of the National-Socialist Party and the creation of numerous public bodies have introduced new payment liabilities, which do not appear in the tax-revenue returns but virtually are taxes. Some are legally compulsory, some virtually compulsory, and only a small part really voluntary. They include subscriptions to the National-Socialist Party and to its various organs and charitable funds (*Winterhelp* alone is said to absorb nearly Rm. 400,000,000 a year), dues and fees to corporative organisations, such as the Nutrition Estate, Organisation of German Business, German Labour Front, Propaganda Ministry, etc. There are also fees for the Import and Raw Material Supervision Board, special levies for the subsidising of export, and sporadic subscriptions for Air Defence, etc. The total yield of all these has been put at Rm. 2,500 to Rm. 3,000 millions a year. No official report has been published for many years as to the incidence of taxation; but the final estimates of three experts, working outside of Germany but independently, go to show that between 42 per cent and 47 per cent of the national income is now swallowed up in various forms of taxation and contributions, as against 20 per cent, or at the most 25 per cent before 1933. The sum which may be legally deducted from wages for income tax and social benefits is from 12 per cent to 14 per cent, but other deductions are also made."¹

Now that there is no longer any parliamentary control over the government, it would appear that Hitler and his Party are in absolute control of the state. It is true that the state bureaucracy is far more powerful than before, but the high officials cannot make any important decisions on their own. Although the bureaucracy is so much more powerful than in other countries, its very strength is dependent both upon the collaboration of the Party chiefs with the army, and upon the close connections between the important capitalist interests and the high state officials.

The big capitalists, however, object strongly to financing the huge unproductive state bureaucracy. Nor do they want the kind of dictatorship which might adopt an adventurous policy unmindful of their interests. On the other hand, the gigantic administrative machine and Hitler's authoritarian rule can alone preserve the social system. The influence of the army further restrains the adventurous

¹ "The Economic Outlook of Germany," by A. Parker. *Lloyds Bank Monthly Review*, July, 1937, pp. 385-6.

inclinations of the Nazi leaders and prevents them from disregarding the interests of the big capitalists.

Any policy directed against the trusts and monopolies would lead to the collapse of the banking system, and to a crisis of production in precisely those industries essential for rearmament. The big capitalists have no objection to the Nazi chiefs being given a free hand against the small and uninfluential capitalists, especially when the latter are unmindful of the state's interests.

There is still a great deal of competition within the capitalist class, and even between the various trusts and monopolies. The capitalist class is not so united as to be able to act as a spontaneous unit, a system is necessary which compels the individual capitalist to respect the interests of his class before his own private interest. Formerly the industrialists and bankers had their own private organisations which enjoyed great political influence. To-day these organisations are still in existence, but are controlled by the state, which has appointed their leaders. The result is that the average capitalist entrepreneur has less political influence than before, whilst the trust magnate has so many direct contacts with the state officials as to have enormously increased his political power. But even the trust magnates leave the responsibility for state policy to Hitler. It is a great advantage to them that the heads of the administration should be officially independent of big business. The concentration of capital has gone so far, and the economic power of a few trusts has become so great, that social antagonisms are too acute for the big capitalists to govern directly.

The Fascist Party leaders have a most important rôle to play in maintaining discipline even amongst the capitalists, and in increasing the power of the state. Sometimes it is essential to make some concessions to the middle-classes, or to the working-class, in order to obviate the danger of insurrection, or to obtain the people's support for war. Such concessions may appear as anti-capitalist measures, and may in fact enhance the prestige of the Nazi leaders, but they cannot be far-reaching enough to change the economic system.

Nor can the Nazi leaders risk a war without the prior consent of the army, the bankers and the trust magnates.

The corruption and bribery, which are the inevitable result of the collaboration between the Nazi Party and the big capitalists, recall the relations existing between war lords and capitalists and landowners in Asia, where the former keep order for the latter. Most high officials in Germany to-day are linked up with certain capitalist groups, and all large enterprises and trusts have their Fascist "trustees" who get well paid for the services they can perform for their old friends or associates.

Each capitalist concern depends on the goodwill of the state officials for both orders and raw material supplies, and for foreign exchange. Competition can be restricted by the state for the benefit of a particular firm. For the individual capitalist the state officials constitute a real authority which can make or break him. The official is supposed to act in accordance with the interests of the whole capitalist class, but he can usually be bribed by the individual capitalist who has the necessary means. The Nazi officials utilise their powers to draw as much money as possible out of the pockets of the capitalists who want favours from them.

The old tradition of integrity and honesty among German civil servants is dead. In the old days the *Beamte* (state officials) were regarded as a superior caste performing a necessary service to the community. When the capitalist system broke down at the end of the Great War, no excesses were committed against the state officials, who were respected by all classes. To-day, under Fascism, the Nazi state officials are known to be venal. The entire German population, concerned at all times with the difficulty of paying taxes and the shrinkage in their incomes, notice at once when a state official acquires a car or a country house.

However much the individual capitalist may object to the new bureaucracy and resent the cost of its maintenance, however much more powerful the Nazi leaders may be than any individual capitalist, this does not prove that the capitalist class as a whole is not identified with the Fascist régime. Although each capitalist struggles in times of crisis or

depression to save himself at the expense of others, the capitalist state cannot permit him to safeguard his private interests at the expense of the capitalist class as a whole. The state control exercised over every capitalist serves the common interest of the whole capitalist class in preserving the capitalist system. For instance, even if the owner of a factory should profit from the employment of skilled left-wing workers, this would be against the interests of the capitalist state. The National Socialist nucleus in the factory may seem a superfluous luxury to the factory owner or shareholders, but its propaganda serves the interests of the state, and so of the capitalist class.

Many capitalists regret the passing of the good old days of peaceful democracy and detest the Fascist bureaucracy. But they know perfectly well that it would be extremely difficult, if not absolutely impossible, to keep the capitalist system going at all if democratic rights and liberties were restored to the people. They take heed of Hitler's and Schacht's warnings that the end of Fascism would mean a new period of revolution and anarchy, and they would turn a deaf ear to any proposals for a "Popular Front" against Fascism.

Chapter 18

THE OPPOSITION

A. TRADE UNIONS AND MILITARISM

OPPOSITION WHICH ONLY INFLUENCES INDIVIDUALS OF THE middle-classes is no menace to the established government. Such opposition cannot affect either the production of armaments or the morale of the army. It is only when those who produce and handle the weapons of modern warfare are no longer willing to work and die for their country that the military strength of a nation is undermined. When this happens, however many armaments have been piled up, however great their efficacy, a country cannot become the greatest of military powers. Hitler and Ludendorff had exactly the same ideas as to how to prevent any opposition amongst the troops, and keep up the martial spirit of the people. They both thought that if all criticism were stifled and all Marxist or "Jewish" propaganda ruthlessly suppressed, and if state propaganda were forever glorifying the military ideal, the workers would support the régime and become obedient soldiers. The following two quotations from Ludendorff's *Der Totale Krieg* illustrate this belief:

"Spiritual integrity alone can make the people capable of fostering the spiritual forces necessary for the strenuously fighting army."¹

It was generally doubted whether any opposition could exist under a régime of terrorism and with all criticism suppressed. It was thought that the mass of the people would be rendered incapable of independent thought and become men with the minds of slaves, instead of class-conscious workers.

The impressions received by foreign visitors travelling in Germany are often misleading. Many middle-class

¹ *Der Totale Krieg*, 1935, p. 11.

people grumble quite openly and are much more outspoken in their criticism of the régime than the workers. The latter rarely speak to strangers about the Fascist system. They give non-committal answers or even praise the Nazis when questioned by strangers trying to ascertain their political views. This does not prove that they are Nazis, or less anti-Nazi than the grumbling petty bourgeois. On the contrary, the latter are discontented but have no idea how it will end, nor what they really want. All they know is that the present state of affairs is very unpleasant, and even worse than that which preceded it, and that the hopes aroused by the National Socialists have not been realised. Many workers on the other hand, having greater political experience, have quite definite views concerning the future, but fully realise the difficulties of struggling against the Fascist régime. They therefore avoid incurring risks which serve no purpose, whilst carefully observing the weaknesses in the system, in order to utilise any loophole to advance their interests.

During the first year or two of National Socialist rule there were many workers who believed more or less in the socialist slogans of German Fascism. They were mostly young workers without political experience, often closely connected with the middle-classes in origin and upbringing. In 1932-3 the Nazis had much more influence among the office workers than among the industrial workers, and also found support among the workers who had been unemployed for many years and had lost any belief in parliamentary institutions; they were glad to get jobs and did not care that they were producing war materials. They were not convinced by the arguments of the Nazis, but they thought: "Give them a chance!" To-day, such workers will almost all of them admit that they have again been deceived, and that they are quite disillusioned. They look to the former Marxists with great respect. They may still be members of the Fascist factory cell or of the S.A., or of the German Labour Front. They are afraid to leave these organisations, but they are not at all reliable from the Nazi point of view.

It has already been stressed how vital to the military strength of a nation is the existence of an upper stratum

of skilled workers loyal to the state, who can be counted upon to support war with enthusiasm, carry out the orders of the army leaders, and influence the mass of the working-class. This need arises out of the totalitarian nature of modern warfare and the complicated mechanism of modern armaments. Whereas an industrial worker can quickly learn to handle a complicated weapon, a peasant needs years of training.

During the World War the German general staff did its utmost to secure the support of the trade-union bureaucracy and to foster a patriotic spirit among the workers. They even brought pressure to bear on reactionary industrialists to recognise the trade-union leaders as the representatives of the workers. During the war the leader of the miners' trade-union wrote:

“Instead of dissolution (of the trade-unions) an attempt was made to put the trade-unions organisations at the service of the state. . . . Kirdorf (leading heavy industrialist) complained at the meeting of the board of directors of the Gelsenberg concern that the government was on too friendly terms with organised labour.”¹

It would have been impossible for the German general staff to continue the war for four years against the far superior forces of the enemy and their infinitely greater resources, if the Social-Democratic trade-union leaders had not given them full support and guaranteed the efficient and uninterrupted working of industry.² By the end of 1917 the influence of these leaders, which had been based on their former trade-union activity, was exhausted, and the most advanced and politically experienced workers, realising how much the system depended on their work and their goodwill, had lost all faith in them and had begun to regard them as traitors.

The Nazis have failed to create a trade-union machine, or any alternative workers' organisations, which the army can rely upon in wartime to secure the smooth working of industry or the willing enlistment of workers in the army. In particular, it has no guarantee that the skilled

¹ C. Legien, *Die Gewerkschaften*, ed. by F. Thimme and C. Legien, 1915,

93.

² See A. Winnig, *Vom Proletariat zum Arbeitertum*, 1930, p. 127.

workers, would have any heart for the war it is preparing for. This failure does not arise from any inefficiency on the part of the Nazi propagandists. It is due to the absence of a labour aristocracy willing to fight in defence of the existing social system. It was the skilled workers who formerly had the oldest and best organised trade-unions and had secured many concessions and privileges. It is they who resent most the destruction of the trade-unions by Fascism. Although the scarcity of skilled labour for the armament industries has enabled them to obtain higher wages, this has not reconciled them to the system. They have been prevented from fighting collectively for higher wages, and in general, from defending their group interests by eliminating competition between themselves. Any such attempts at collective action are now labelled Communism, Bolshevism, and class war. Those who have obtained an increase in wages realise that the concession has been made by reason of their indispensability; this has strengthened their feeling of self-reliance, and encouraged them to struggle for higher wages and against such treatment as the rest of the working-class dare not yet struggle against. It is true that resistance has not been confined to the skilled workers, but it is they who are best able to co-operate against the employers and state authorities. There have been cases of revolt by the unskilled against harsh treatment, bad food and wage reductions; for instance, amongst the workers building the new military motor-roads. The presence of large numbers working together in extremely bad conditions favoured collective action, but it was usually less successful than that of the skilled workers, who know that they can easily find new jobs if they are dismissed, whilst the labourers on public works can easily be replaced. They will be refused unemployment relief and treated as "enemies of the state", or at least get their Labour Books marked "incapable of work", if they lose their jobs by striking. When they do strike it is in desperation at intolerable conditions of labour.

"If it is possible to speak of alternations of optimism and pessimism in the attitude of the workers towards politics between 1932 and 1935, that description no longer holds true to-day. The

Nazis have consciously aimed at making all political thinking superfluous. The feeling of the workers at the present time has reached a depth of pessimism which cannot be shattered by a wave of optimism, but represents the beginning of that state which Hitler and Goering wanted reached—an absence of political interest on the part of the masses, which is expressed in such sayings:—‘All policy is nonsense,’ and ‘it’s stupid being politically minded.’”¹

It proved much easier for Fascism to destroy the old organisations of the working-class than was expected, but militarism cannot rest content with a state of affairs in which the workers are unorganised. Accordingly, the Army takes a hand in organising the workers in the factories and in the large industrial centres. If militarism cannot win the support of a reliable upper stratum of the working-class the illegal opposition will be able to exploit any difficulties which arise in the future. But all the attempts to build up a Fascist substitute for the trade-unions have failed. According to the original plan, the Trustees of Labour were to replace the trade-union leaders. It was hoped that at least some of the industrial workers would be won over by demonstrating to them that the Trustees of Labour would do what the trade-union leaders had done, and do it better and more cheaply. The Nazi factory cells were to become nuclei of reliable workers believing in the National Socialist system and prepared to defend it. These plans have never materialised. The Fascist organisations and officials have failed to win any influence amongst either the skilled workers who occupy the key positions in industry, or amongst the rest of the working-class. The few who support the Fascists are weaklings who fear to lose their jobs, untrained workers, ruined members of the middle-classes, who live by spying on their fellow workers and are therefore too despised and distrusted to have any influence.

Most Nazi workers are influenced by their anti-Nazi colleagues. They are often boycotted by them, and there is frequently a tacit understanding amongst the workers in an enterprise to ignore the Nazi workers, who are all suspected of being spies. This kind of understanding is a

¹ S.P.D., June, 1936.

spontaneous reaction, but is very efficacious in making life intolerable for the Nazi workers, who often prefer to lose their jobs rather than continue at work in silent conflict with the majority of their fellows. It is difficult for the authorities to do anything to suppress this silent and unorganised boycott of the Nazi workers. It is impossible to compel one worker to be friendly with another if the majority are similarly hostile. It is often easy for the Nazi workers to be made responsible for the technical difficulties which arise, or for accidents, or even to produce "accidents" which temporarily prevent the Nazis from continuing at work. In this way the workers have cleansed their ranks of Nazi elements, or induced the latter to collaborate with them against the factory leaders, and to cease to act as spies. The following report from a German worker employed at a large factory producing foodstuffs shows how the Nazi workers are dealt with.

"At a high estimate, 5 per cent of the workers are Nazis. Nobody criticises them, but they are regarded by the others as an alien body. Newcomers to a factory who are known to be irreconcilable opponents of the Nazis get to know in a few hours, and without any conversation, who can be trusted. In a few days they know all about the concern, and frequently with the help of the equally dissatisfied foremen. Excellent comradely relations exist among those of like mind. They know who is in for a particularly bad time and they let him feel their sympathy."¹

Another secret report by a worker in one of the largest electro technical factories tells the same story.

'The attitude of the men varies. Besides many a political workers, there are politically conscious groups who act in common without direct agreement. If, for example, within a group of workers former trade unionists or members of the Labour movement are in the majority, Nazis will have a very difficult time. The Nazi will be useless at work, will not understand his job. Frequent complaints about his work are made, and finally the foreman himself is convinced that the Nazi is inefficient. He will leave his job on his own initiative or he will be among the first batch of dismissed workers. These acts are performed without much thought, it is a kind of silent hostility against the 'conformists' or Nazis."²

¹ S.P.D., April, 1937

² S.P.D., December, 1935.

The Nazi workers who have gone into opposition are frequently appointed by the rest as delegates to represent them in making complaints or demanding wage increases from the Leaders and Trustees. They criticise and grumble even more than the non-Nazis, because they have been disappointed, and also because they want to show their fellow workers they are no longer real Nazis.

The anti-Fascist workers have had to learn to speak the language of National Socialism.

“Mockery of the régime or of its leaders is encountered mostly in forms which it is difficult for the police to grasp. . . . For example, in an exaggerated byzantinism, when people speak of “our dear good sweet Goering,” or introduce every sentence with “our unsurpassable and unreachable leader.” The terror continues unabated, but . . . there are not enough voluntary assistants of the police. . . . Apart from the extensive spy system the régime has—on paper—built up an unbroken observation system by means of the house wardens. Every warden is obliged to report on the life and activities of the house dwellers. Many wardens are not distinguished for their zeal. Those who are zealous are soon known. . . . The lowest organisers are not paid at all or only badly paid and cannot free themselves from the general feeling. However strong the pressure of the machine on them may be, the daily and hourly pressure of the inhabitants of the house and of their colleagues at work must in the end prove the stronger.”¹

Demands for better conditions have to be put forward by quoting the speeches of Hitler and other leaders about the “protection of German labour”, or about the “real spirit of National Socialism”. The Nazi workers can be impressed by such arguments, which appear to legalise the struggle for higher wages. But the authorities often arrest even the Nazi workers if they have helped to make trouble between the management and the workers, and have exposed the representatives of the Labour Front in their true colours.

It is not intended to exaggerate the failure of the Nazis to win influence amongst the industrial workers. It is true that the workers are unorganised except in the compulsory state organisations in which they have no democratic rights. It is true that it is extremely difficult to create unity of purpose among the workers, that the state machinery

¹ S.P.D., February, 1937.

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for their suppression is very efficient, and that they fear the police and the Fascist bullies

HOW THE WORKERS FEEL

It would be suicidal for the workers of one enterprise, or even of one town, to risk a premature struggle against the state. The discontent and hatred of the majority of the working-class is not enough to destroy the Fascist system. In peace-time the Nazis can retain power in spite of the passive resistance of workers who see no chance of destroying the system they hate, but if war comes, submission would not be enough to keep the régime in existence.

Ludendorff, speaking of the breakdown of the morale of the German army at the end of the war wrote

"The essence of totalitarian war is that it can only be waged when the whole people feels its existence endangered and is therefore determined to risk a war"¹

Many new armament factories are under military control, and military discipline is maintained among the workers, who are often recruited from different districts, so that they do not know each other. They are unable to trust each other, and the factory leaders have introduced a system which makes it difficult for the workers to organise a common resistance. This is illustrated by a report from an illegal trade-unionist

area. They cannot see the men in other departments; like prisoners, they wear uniforms marked with letters sewn in various colours on their clothes.”¹

During the first years of National Socialism many workers who had seen the destruction of their trade-unions and parties were desperate. They were able to understand how workers who were unemployed for many years became National Socialists—for fear of again losing their jobs. Those who are wont to form their opinion only from daily experience and the feelings of the workers, overestimated the strength of the system during that period.

The workers in armament factories, in comparison with other sections of the working-and-middle-classes, are more advantageously placed to resist the decrees or orders of the Nazi authorities. The daily collaboration of many men under the same conditions is favourable to the development of some kind of solidarity. But they have no trade-unions and there is no party to organise them and provide leadership. This makes them cautious and prevents any large-scale action. Their resistance finds expression only in short strikes, lasting mostly a few hours, very rarely a few days. The state is afraid of such action, as it does not wish to give similar concessions to other workers, while any strike is a heavy blow to its authority. Above all the Nazi leaders are extremely anxious that such strikes should not be made public, and no news of them is allowed to be published.

B. ILLEGAL LABOUR TRUSTEES

There are no longer craft guilds or trade-unions of highly skilled workers representing the interests of their particular groups. The old trade-union problem of transforming craft or professional unions into industrial organisations on the principle of one factory, one union, one industry, one organisation, was never really solved under democratic rule. Fascism has destroyed the old type of organisation, and is now suppressing the new kind of working-class unity. But circumstances and conditions are driving politically militant workers to form a new kind of organisation—the revolutionary or illegal Labour trustees.

¹ From *Illgewokorr*, 26, p. 5.

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Is any illegal organisation able to influence and to lead huge masses of people in an organised way, with unity of purpose, in spite of the Fascist régime? The only organisation which is able to attain such influence is the revolutionary trade-union, which leads to a system of illegal Labour Trustees ("L.T.") who work in the big factories and have a predominant influence there. They are able to give a lead to their fellows. Such an organisation existed during the war, and it was these L.T.s who organised the famous strikes in 1917 and 1918.

These leaders are for the most part experienced trade-unionists who are known to the workers of their factories as intelligent and trustworthy. Their influence has grown with the decline of the old trade-union bureaucracy which supported the war. At the end of the war, when the whole state system collapsed, these L.T.s (like the shop stewards in Britain) led the workers of the large factories; but they did not know how to use their power politically. On the whole they followed the Independent Social Democratic Party, while the Spartacists, who fought for a Soviet Germany and a proletarian dictatorship, had almost no influence among them. The recently formed Communist Party succeeded in winning over the majority of these workers a year and a half later, after the split in the Independent Social Democratic Party, and when the capitalist state had reconsolidated its power.

Under National Socialism terrorism is much greater than under the military dictatorship during the Great War, and illegal work has become very much more difficult. A movement comparable to that which existed during the war does not yet exist. There are many workers who would be willing to build up such an organisation, but terrorist pressure is so strong, the watch kept on most workers, particularly those with experience in trade unionism and political work, is so strict, that all such attempts have so far failed to lead to a central organisation comparable to the one in existence during the war. But there are a number of small revolutionary groups which meet and discuss what can be done in their factories.

National Socialism has destroyed not merely the labour

organisations which were in existence under the parliamentary régime, it has also destroyed the traditions and illusions of that period. Any illegal labour movement which arises under Fascism will be quite different from the traditional movement under democratic governments, not only in its technique, but also in the spirit and aim of its policy.

Except for a tiny minority, which is closely watched, the old guard of socialists and communists are annihilated, in prison, or have had to emigrate. The number of organisers or militants in the underground organisations is extremely small and cannot be compared with the former working-class organisations, or with the number of police and Gestapo agents. The reader would get a false impression if he were to estimate the strength of the opposition to the régime from the number of illegal workers. There are numerous workers willing to use the slightest chance of anti-Fascist activity if the risk is not too great. There are others who are living under conditions which make it impossible to meet any political friends or to make any move without betraying themselves and their comrades. And there are many who, though they keep silent and passive at the peak of the terrorist pressure, will do something against the régime when there is greater opposition among the people, and when the pressure of the dictatorship is less effective. A small minority, however, are willing to continue their work under all conditions. Their number may be 10,000 or 15,000, mostly Communists, with a small sprinkling of Social Democrats. Only a few among them are in direct touch with the official party machines abroad. Most of them collaborate with a group of friends and fellow-workers.

The number of workers willing and able to assume leadership is greater than in the movement during the war; the workers of to-day are more experienced and have no longer any illusions about the state, parliament and capitalism. They have witnessed the bankruptcy of parliamentary democracy, and they are not anxious to repeat the experience of November, 1918.

The policy of the Communist Party leadership is directed against an organisation of illegal trade-unions and L.T.s. The Communist International instructed its members to

work mainly within the Fascist organisations. The Social Democratic Party maintains only a nucleus of members who avoid political activity among the unorganised workers. They merely send reports about their experiences to headquarters, while they themselves receive bulletins. But former Communist Party members and other young socialists and trade-unionists to-day belong to groups of revolutionary illegal workers.

The organisation of illegal trade-unions on a larger scale has been undertaken by former trade-unionists and Communists who are in opposition to the new policy of the Communist International. Many who started organising these illegal activities have been arrested, but the groups have been reorganised once more, and are the only kind of illegal organisation which can be reconstructed in spite of the Gestapo. Other illegal organisations can be uprooted and completely destroyed without a chance of being built up again, as there are no suitable recruits. Newcomers sent from abroad by secret headquarters are completely cut off from the workers, and such isolation makes their task impossible.

C. HOW ILLEGAL WORK IS DONE

How a group of illegal Communists working at one of the biggest factories in the electro-technical industry in Berlin managed to obtain great influence among the workers through a net of revolutionary trade unionists is illustrated by the following report:

"There was a cell of fifteen members among 2,000 workers. An illegal 'Committee for the Reconstruction of the German Metal Works Union,' of about thirty members, was formed of former Social Democratic trade-unionists. They became the non-elected representatives of their colleagues. In 1933-34 piece rates were reduced in spite of the rise in prices. It was possible to organise the first movement for an increase of wages in November, 1934, in a department of about forty-nine skilled workers. The extreme inequality of wages caused much discontent. Propaganda, beginning with discussion, was first directed to the necessity of a wage increase. Work was stopped when the Works Trustee appeared to discuss the question. Finally a wage increase of 5-7 per cent was granted, but the Works Trustee refused to do anything for the workers because they 'did not come to the meetings and demonstrations'. The

workers demanded a rise in the wages of the lowest paid to bring them up to the level of the higher paid workers. A delegation was selected by the workers and sent to the management, resulting in an increase of 4-6 pfennigs an hour. The Works Trustee was furious and threatened to stop the increase, but he was not successful. Later similar movements for increased wages were organised with partial success in several other departments of the works.

"All workers are members of the German Labour Front, but there are practically none in favour of the Nazi system. The few Nazis are completely discredited and morally disintegrated. The National Socialist Factory Cell has 100 members; they are passive but dissatisfied. The representatives of the Labour Front, including the Works Trustees, are hated and distrusted by the workers. In the best cases workers might say of a Trustee: 'He may be a decent fellow, but he wears the brown shirt and has to do what the Leader orders.'"

There are other oppositional groups and cells in labour camps, among the S.A., and particular in the youth movement. But they are isolated from each other; they are not led by politically conscious and experienced men, although they tend to weaken the Fascist state and may neutralise, or even make rebellious, whole sections of the fascist organisations at times of open crisis. But the key men in the anti-Fascist movement are the factory workers. They will be the decisive factor in the next crisis of the Fascist régime.

The workers know that they cannot risk an open attack against the system as long as the state machine runs smoothly, and as long as a well-armed police force can be sent against them. But there are many who are waiting for the opportunity which will be theirs when the state power has weakened and the workers have arms in their hands.

Such a situation is extremely dangerous for militarism, as, in case of war, it leaves it without any effective control of the working-class, especially of the workers in the big factories. However, completely the workers are militarised, and however far the system of spying and compulsion may be extended, it is impossible to place a spy beside every worker.

One great weakness of the underground movement is the lack of connection between experienced workers and the youth. There are a number of groups of young workers who are discontented and sometimes even rebellious. At

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times they start anti-Fascist activities and illegal work without the knowledge of the older workers

A new youth movement will be the outcome of Fascism, and there is no doubt that it will be revolutionary and anti-Fascist. During the World War the youngest soldiers were the first revolutionaries

"Among the men of the reserve troops, particularly the youngsters of eighteen and the older men conscripted later, the radicals found fruitful soil. Thus, particularly in the large towns, there grew up a generation that was the more accessible to the revolutionary poison because they lacked any experience of life and capacity of judgment."¹

A peculiar feature of the illegal movement is the existence of groups or study circles which are non-political. Former members of anti-Fascist organisations who know each other organise, for example, a group for the study of the Renaissance period, or of the Middle Ages, or of Dostoevski. The members of these groups are often former socialists or Communists. They hate the Fascist system, but they will not discuss any political matter, and a strict silence is kept on such questions. But these groups are useful in so far as they enable anti-Fascists to keep contact with each other, and to meet each other openly.

D TACTICS OF THE OPPOSITION

The old party system which existed under parliamentary democracy no longer exists. The Fascist dictatorship destroyed the old parties. This does not mean that nothing has been left of the old labour movement—the trade-unions, the Social Democratic Party and the Communist Party—but these parties are to-day quite different, no one to-day defends the old Social Democratic policy, although there are still many Social Democrats. But often an absolute fatalism prevails among these former Social Democrats, and they are waiting for some change in an uncertain future.

The Communist workers are in general more militant. At the beginning of the Fascist régime there were many Communist Party members, politically inexperienced but

¹ *Army and Politics* by an officer of the German General Staff, Berlin, 1919 (German) p. 21

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willing to obey any instruction from their leaders. At that time the Communist International argued that the German working-class had not suffered a serious defeat by the victory of Fascism. Much work was done by devoted members, but many Communists realised the weakness of their leadership and started to work independently. Numerous groups of Communists were formed and often maintained close relations with former Socialists whom they knew personally. These groups, cells, and even individuals, issue bulletins and have reconstituted a Communist Party which cannot be controlled and led by the Central Committee of the Communist Party abroad.

“The illegal movement in Germany,” runs a report in an illegal periodical, “reached its peak during the winter of 1935–36. Many demonstrations against the low wages occurred in the factories. Queues before the food shops. . . . Discontent in the National Socialist organisations. Many Nazi members were arrested. The authority of the Nazi cells and of the German Labour Front diminished. The representatives of the Labour Front became contemptible and often ridiculous persons. The illegal movement drew its strength first of all from the Communist Party. At that time the Berlin organisation of the Communist Party had a membership of two to three thousand, most of them paying regular dues. In many factories groups of L.T.s organised spontaneous movements. There was a similar development in the West and South of Germany, and in Hamburg. In the autumn of 1936 a new stagnation of the illegal movement began, the reasons for this being manifold. The feeling of the people was not more favourable to the Nazis—on the contrary. But the workers experienced for the first time the political limits of the wage movement, which was concerned only with partial strikes, passive resistance, election of delegations to the managements, and they realised that these forms of resistance were no longer sufficient. However, the objective conditions necessary for higher forms of struggle did not yet exist. A new wave of mass arrests destroyed many illegal groups. There were many discussions among the militants dealing concretely with the problem of overthrowing the dictatorship. This was quite a new kind of discussion, based not on some artificial scheme, but on actual experience. They showed the beginning of an ideological amalgamation of left-wing Social Democratic groups with the Communist Party, and thereupon the Central Committee of the Communist Party put forward the slogan of the ‘People’s Front’ and of the ‘Democratic Republic.’ The Communist workers did not know how to deal with these slogans, and the

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left-wing Social Democratic groups which had been won for the proletarian dictatorship after painful experiences were enraged. After many doubts they had finally come to a revolutionary outlook, and now the Communists had suddenly become 'democrats': . . . One must mention the new wave of terror started during the summer of 1936, to complete the picture of the illegal movement. In all parts of Germany, especially in Berlin, thousands of Communists and Social Democrats were arrested. Only during the past few weeks have the illegal groups begun meeting again, and illegal work is once more increasing."

Labour Trustees (members of the "Confidential Board") who attempt to use their position in the interest of the workers, and are therefore not on good terms with the factory leader, are quickly exposed by the Nazi organisers as saboteurs and Marxists. Many workers are obliged to become official representatives of the Labour Front or of other Fascist organisations. They dislike their work, and they may neglect the collection of funds or the sale of Fascist newspapers or the denunciation of anti-Fascist workers. But they cannot use their position for organised anti-Nazi work. The workers may have pity for these compulsory representatives of Fascist organisations, but the anti-Nazi workers will not discuss their activities with them, because they are more closely watched than anybody else, and they will be made responsible for any anti-Nazi activity within the factory. There are other representatives of the Labour Front who take their job seriously. They spy upon the workers, denounce anti-Fascists and consciously support the régime.

The workers regard them as their enemies, and any discussion will be stopped in their presence. They are blacklegs and organisers of blacklegs in the eyes of the workers. Anti-Nazi workers will avoid becoming official representatives of the Labour Front or any other Fascist organisation. It is thus easier for them to obtain influence among the workers.

The main weakness of the oppositional underground movement is the lack of national leaders and organisation, although there are workers willing and able to lead the workers of their group or factory. To-day these workers mostly keep quiet, or simply maintain "personal relations" of friendship with each other.

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The state has succeeded in destroying the traditional organisations and institutions of the working-class more easily than was expected, and any new working-class movement can only be started as an illegal movement preparing a real revolution, and exploiting any weakness in the system for its own purpose. Although the workers are no longer organised in independent organisations, they are not isolated like peasants in a backward country. Workers are engaged in larger factories than before, and the army is also concentrating and training the youth.

THE CHURCH OPPOSITION

It is much more difficult for middle-class people to organise an oppositional movement. The middle-classes, especially the independent middle-class, are relatively isolated from each other; they do not collaborate daily, as do the workers. They are unable, therefore, to develop a common ideology or purpose like the workers. Only one organised opposition exists among the middle-classes, and this is the opposition of the clergy against the Nazification of the Churches. In some parts of Germany such as the Rhineland, the Saar and Silesia, the Catholic Church also has great influence amongst the workers.

The Church opposition dislocates that spiritual unification of the people desired by the Nazi system. The devotion with which a large percentage of the middle-classes, and particularly of the peasantry, support the oppositional clergy, is a result of the general dissatisfaction of these classes with their economic position. This opposition can, however, be easily controlled by the state; though it may develop a strong fighting spirit, it does not seek to overthrow the system.

Although this sounds paradoxical the strength of the Church movement lies in the authoritarian principle of the régime. Before Fascism, the Protestant Church, and to a lesser degree the Catholic Church, had lost most of its influence. Most workers and most urban middle-class people still paid their Church dues but the Church was only a traditional institution for most Protestants. They went to church only when they married or after the birth of a child or at the funeral

of a family member. To-day they are extremely dissatisfied with the earthly régime and hate the Nazi leaders who live at their expense. But they cannot see any way out while Hitler boasts that his régime will crush any opposition and all enemies and will last at least five hundred or a thousand years. The assurance given by the priests and the clergy that Someone exists who is stronger than any human being, and who will punish the misdeeds of all human beings, is not merely a comfort for desperate people under authoritarian rule, but sounds to them like a challenge to the authoritarian ruler who claims that nobody is superior to him. The increase of the influence of the Church under Nazi rule is a kind of protest of dissatisfied and desperate people against the principle of authoritarian dictatorship.

Besides the official Church opposition there exist many small sects which produce real martyrs, for example the "Ernstes Bibelforscher"—"Serious Explorers of the Bible". There are groups of young men in these sects who are willing to suffer any hardship without recanting a word of their belief. The "Serious Explorers of the Bible" are persecuted almost as virulently as political revolutionaries.

The army leaders were opposed to the open suppression of the oppositional churches and the creation of a "National Socialist Church". They considered it "would make many middle-class people, especially the peasants, more hostile to the régime and would destroy an institution whose leaders are not yet discredited among the people and who would probably support another 'war of national defence'". At the same time it would be difficult for the state to control the oppositional movement of many groups and circles of real Christians, who study the Bible, and who compare the text of the Bible with the situation in Germany.

At times of real emergency, it will be possible to come to an understanding with many leaders of the Church opposition. These men are mostly conservative, and would rally to the defence of the Fatherland in case of war. They would then influence many middle-class people. It becomes increasingly evident that the future of any real and honest Nazi opposition depends on the working-class movement.

Chapter 19

WHAT WILL HAPPEN NEXT?

IT IS PROBABLE THAT THE ARMY STAFFS IN OTHER COUNTRIES know something of the internal weaknesses of National Socialism, but they can make no exact calculation as to how this will affect Germany's military strength. The full effect of these weaknesses might only be felt in the later stages of a war.

It is difficult to understand how the National Socialists have been able to continue successfully bluffing the world as to the existence of an invincible military machine which may overrun Europe. Militarists in other countries have, of course, been only too glad to give credence to this myth of German invincibility, as an argument for rearmament in their own countries. But the main reason why Fascist Germany has been able to pursue a provocative and "strong" foreign policy with such success is not so much the fear of an attack by Germany on the Western Powers as the fear of what might follow the downfall of the Nazi régime. The German militarists are confident that they will not be attacked and even think it likely that their aggressive acts will not be resisted, because other countries realise that a second German defeat would probably lead to successful proletarian revolutions in most European countries, as well as in Germany itself.

A democratic régime sounds like a fairy tale to the present generation of Germans. Tsarist Russia was a free country in comparison with Fascist Germany, and Siberia a paradise in comparison with a German concentration camp. Social antagonisms are growing, and whereas in Tsarist Russia the peasants constituted the great majority of the population, in Germany to-day the overwhelming majority are proletarians, and amongst them are 13 million industrial workers. Consequently a proletarian revolution in Germany would not

go the same way as the Russian Revolution. Lenin emphasised that it would be more difficult to make the proletarian revolution in the industrially developed countries, but that it would be far easier to maintain the dictatorship of the proletariat and construct Socialism. Lloyd George also recognised this and understood better than the advocates of a "Popular Front" policy that the alternative to Fascism is not democratic capitalism but Communism.

"If the powers succeeded in overthrowing Nazism in Germany, what would follow? Not a Conservative, Socialist or Liberal régime, but extreme Communism. Surely that would not be their objective. A Communist Germany would be infinitely more formidable than a Communist Russia. The Germans would know how to run their Communism effectively. That was why every Communist in the world from Russia to America was praying that the Western nations should bully Germany into a Communist revolution. He would entreat the Government to proceed cautiously."¹

It is well known that Sir Montagu Norman was in favour of granting fresh credits to National Socialist Germany. This is not because he is ignorant of the fact that Germany would use foreign credits to finance an even greater rearmament plan. He was less afraid of British credits being used to pile up arms for use in a war against British imperialism than of the collapse of Nazi Germany. He is quoted in the *City* as having said "We shall have to give a loan of £50 million to Germany later if we refuse to give her credits now. The money may never be paid back, but it will entail smaller losses than a collapse of the Nazi régime."

Paul Linzig, editor of *The Financial News*, wrote as follows concerning the miraculous success of Nazi Germany in refusing to pay its foreign debts and yet managing to obtain fresh credits from the very people who had lost a fortune by its policy.

"Having defaulted on their commercial debts arising from imports during the first half of 1934, Germany promptly approached foreign countries with attempts to import on a credit basis. A variety of subtle devices have been employed with remarkable success, with the aid of which it was possible to obtain credit directly or indirectly. In the case of the British

¹*The Times* 23rd September, 1933

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Government, they succeeded in obtaining credit at first through the operation of exchange-agreement, by which German imports of British goods were . . . to discharge their liabilities by the payment of Reichsmarks into the Reichbank. Subsequently, when this arrangement broke down, a payment agreement was conducted and the Bank of England granted a loan of £750,000 with the declared object of assisting those British exporters whose credits were defaulted upon by Germany. The real results of this transaction was, however, that those exporters, having received their money back from the Bank of England, were promptly prepared to grant new credits to Germany, so that in reality the transaction amounted to granting a credit to Germany."¹

Fascist Germany is not afraid to take the risk of war, if she has some chance of success. The more powerful imperialist powers can only be blackmailed by the threat of a collapse of the Nazi régime and a proletarian revolution in Germany so long as their vital interests are not menaced. On the other hand, Germany is experiencing such severe economic and social difficulties that she must sooner or later attempt to bring about a repartition of the world by force. Up to now the German militarists have not been able to find the right strategy for a successful war. They must try to discover the weak spots in the other powers and to change the balance of power by provoking wars and conflicts in any part of the world they can.

If Germany started on another world war now she would have less raw material reserves, fewer trained soldiers and a weaker morale than in 1914. The militarists depend even more than in the last war upon the working-class on account of the further mechanisation of the army and of the "totalitarian" character of warfare, yet the National Socialists have failed to create any organisation which could mobilise the workers for war as successfully as the trade-union bureaucracy did in 1914.

In the period following 1885 Germany was able to acquire a colonial empire and to invest abroad, though not, of course, on a scale to be compared with the British Empire. The income from foreign investments and international monopolies gave added strength to German militarism before the war, not only economically but also in raising the morale of the people

¹ P. Einzig, *World Finance Since 1914*, 1936, p. 39.

and evoking the support even of the workers for the Government. The trade-unions, whose influence over the workers was decisive, stood for the defence of the Fatherland when war came, and their leaders became obedient "non-commissioned officers" of the army staff. This element of national strength is no longer present, though the further mechanisation of warfare and the increasingly totalitarian nature of modern warfare have increased the need for it.

Germany's army leaders to-day are fully aware of this vital weakness, but do not know what to do to remedy it. They oscillate between paternal warnings and stern discipline and harsh punishments in the old Prussian style. Naturally the results of this kind of education are anything but what is desired.

Fascist Germany endeavours to conceal the weak morale of the people, since it would be aggravated if it were spoken about. Moreover, any outside knowledge of her military weakness would worsen Germany's international position. In Eastern and South-Eastern Europe to-day, where most countries are ruled by military and police dictatorships, alliances or political friendships are concluded with neighbours according to what is thought to be their military strength. Germany therefore needs to adopt an extremely aggressive attitude in order to impress other powers and conceal its internal rottenness.

If another world war breaks out Germany's "moral reserves" will be less than in 1914, and she will have far greater difficulty in maintaining discipline in the army and order at home than she had even in 1917, after three years of war. The last war became "totalitarian" only in its third year. To-day Germany envisages a war which will be totalitarian from the very outset, and this makes victory more dependent than ever upon the morale of the people.

The rulers of Germany have no doubt that a collapse of the state power would be far more disastrous for them to-day than it was in 1918. It will be impossible this time to produce a host of democratic illusions about the construction of a new state out of the old. The lessons learnt from the experience of the Weimar Republic cannot be forgotten. National Socialism has relied so largely upon

terror to maintain its rule that hatred and revengeful feelings are general amongst the working-class. The old illusion that a "purely economic struggle" can improve the lot of the workers is gone for ever. The most intelligent and selfless young men and women, the youth who can get no satisfaction out of a soldier's life, and are revolted by the corruption of the bureaucracy and by social injustice, are driven into opposition and underground activity, which weakens the foundations of the system and prepares the way for a proletarian revolution.

Although the German army leaders know the feelings of the people, they cannot but prefer an early war to economic and social decline, and an armaments race in which they must inevitably soon fall behind the powers with greater resources. Nevertheless, they must endeavour to avoid a war in which they may find themselves isolated, or even more isolated than in 1914. Their desperate situation is driving them to adopt an adventurous policy. They hope to involve the whole world in wars and anarchy which will weaken the other powers and enable Germany to conserve her strength longest. This is a hazardous policy. Germany is ready to go to war if financially backed by other countries. This is why an international crusade against the Soviet Union is hoped for, which would give Germany her chance. But the outcome even of such a war is very doubtful. The German army staff would prefer a war against France alone, but this is only possible if the U.S.S.R. is her ally and Britain keeps out. Neither of these eventualities is likely to occur. Accordingly, Germany is compelled to prepare for another struggle "against the whole world".

Hitler is the self-appointed world champion against Communism, but his economic policy so deepens social antagonisms that it is he who is increasing the Communist danger with which he blackmails the other imperialist powers.

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